

A photograph of the Nashville skyline at night, featuring the AT&T Building and other illuminated skyscrapers, with their lights reflecting in a body of water in the foreground.

*Tennessee
Consolidated
Retirement
System*

*Comprehensive Annual Financial Report
for the Year Ended June 30, 2010*

Pension Trust Funds of the State of Tennessee

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM



Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010 Pension Trust Funds of the State of Tennessee

Prepared by:

**State of Tennessee Treasury Department
502 Deaderick Street
Nashville, Tennessee 37243-0201
(615) 741-7063
tcrs.tn.gov**

**David H. Lillard, Jr., State Treasurer
Jill Bachus, TCRS Director**

*The cover features a beautiful skyline of Nashville,
the capitol city of the State of Tennessee.*

**This report is available in its entirety on the Internet at:
www.tn.gov/treasury/tcrs/TCRS-AnnualReport.pdf**



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Treasury Department, February 2010, Authorization #309209, 150 copies.
This public document was printed at a cost of \$8.69 each.

TABLE OF CONTENTS

INTRODUCTORY SECTION

GFOA Certificate of Achievement	1
Public Pension Standards Award	2
Chairman of the Board's Letter	3
Letter of Transmittal	4
Administration and Mission	6
The Council on Pensions and Insurance	7
The Board of Trustees	9
Professional Consultants	11
Treasury Department Executive Staff	13
Organization Chart	14

FINANCIAL SECTION

Independent Auditor's Report	15
Management's Discussion and Analysis	17
Financial Statements:	
Statements of Plan Net Assets	22
Statements of Changes in Plan Net Assets	24
Notes to the Financial Statements	26
Required Supplementary Information:	
Schedules of Funding Progress	38
Schedules of Employer Contributions	39
Supporting Schedules:	
Schedules of Administrative Expenses	40
Schedules of Investment Expenses	42
Schedules of Expenses for Consultants	44

INVESTMENT SECTION

Report by Investment Consultant	45
Letter from TCRS Chief Investment Officer	46
Statutory Investment Authority	47
Investment Performance Review	48
Asset Allocation	49
Largest Holdings	50
Investment Summary	51
Schedules of Investment Fees and Commissions	52

(continued)

TABLE OF CONTENTS (CONTINUED)

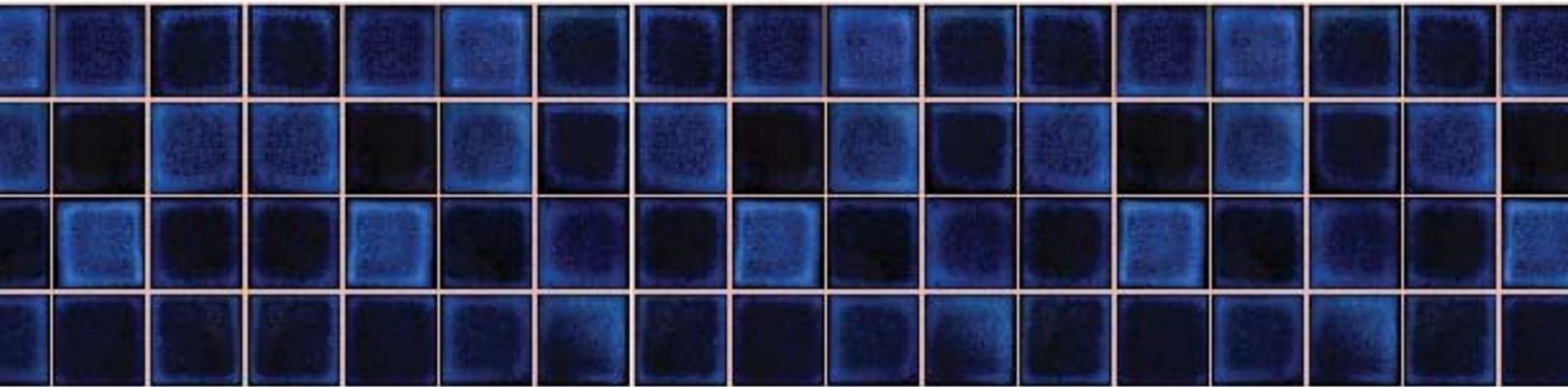
ACTUARIAL SECTION

Actuarial Introduction	55
Actuary's Certification Letter	56
Summary of Actuarial Assumptions and Methods	58
Actuarial Data	60
Actuarial Balance Sheet	61
Short-Term Solvency Test	62
Summary of Accrued and Unfunded Accrued Liabilities	63
Selected Actuarial Funding Information	64
Analysis of Financial Experience	65
Independent Actuarial Review	66
Plan Summary	67
Services for Active and Retired Members	69
Sample Benefit Calculations	70
Major Legislative Improvements	71

STATISTICAL SECTION

Statistical Introduction	73
Historical Fair Value	74
Analysis of Member and Employer Reserves	75
Schedules of Changes in Net Assets	76
Schedules of Benefit Expenses	77
Schedules of Active Members	78
Schedules of Retired Members	79
Retired Members by Geographical Distribution	85
Average Benefit Payments Schedule	86
Retired Members on Payroll and Prior Service Established	87
Treasury Retirement Installment Plan	88
Refund Activity and Political Subdivision Participation	89
Historical Employer Contribution Rates	90
Schedules of Principal Participating Employers	91
Introduction to Political Subdivision Participation	92
Optional Provisions for Political Subdivisions	93
Political Subdivision Participants	94

*Tennessee
Consolidated
Retirement
System*



Introductory Section

GFOA CERTIFICATE OF ACHIEVEMENT

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Tennessee Consolidated
Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

PUBLIC PENSION COORDINATING COUNCIL AWARD



Public Pension Coordinating Council

***Public Pension Standards Award
For Funding and Administration
2010***

Presented to

Tennessee Consolidated Retirement System

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, appearing to read 'Alan H. Winkle'.

Alan H. Winkle
Program Administrator

CHAIRMAN OF THE BOARD'S LETTER

STATE OF TENNESSEE



TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243

December 17, 2010

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the twenty-third consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

Administration: To better serve our members, the TCRS website (located at www.tn.gov/treasury/tcrs) includes a benefit calculation module which allows members to input a limited amount of data to obtain a retirement benefit estimate. Furthermore, TCRS forms and up-to-date information are available online to assist our members and participating employers. Information systems are continuing to be enhanced to allow for additional user-friendly access for members.

Investments: The year ending June 30, 2010 was satisfying for investors and TCRS enjoyed a 10.24% return. The trailing three-year period was one of historic fluctuations and the 2.65% annual loss the fund experienced over that time exceeds 83% of comparable pension funds. This positive result was the direct reflection of the conservative, highly-diversified investment strategy implemented by Treasury. Going forward, the fund is well-positioned to produce solid risk-adjusted returns.

Financial Soundness of the Plan: Members of the retirement system should be assured that the benefits promised will be paid. TCRS is considered one of the best-funded pension plans in the nation. TCRS has received a AAA long-term rating and an A-1(+) short-term rating by Standard and Poor's (S&P), the highest possible ratings issued by this nationally-recognized rating agency. The actuarial valuation, as of July 1, 2009, reported a combined state and teacher funding ratio of over 90 percent.

The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members in the system.

Sincerely,

A handwritten signature in cursive script, reading "David H. Lillard, Jr.".

David H. Lillard, Jr., State Treasurer
Chairman of the Board

LETTER OF TRANSMITTAL

STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
10th FLOOR ANDREW JACKSON BUILDING
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DAVID H. LILLARD, JR.
STATE TREASURER

JILL BACHUS
DIRECTOR

December 17, 2010

Board of Trustees
Tennessee Consolidated Retirement System
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) comprehensive annual financial report for the fiscal year ended June 30, 2010. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Government Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers and employees of political subdivisions electing to participate in TCRS. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 486 participating political subdivisions are responsible for the pension benefits of its employees. The TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

The TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability and retirement benefits; and processing refund and prior service requests.

(continued)

**LETTER OF TRANSMITTAL
(CONTINUED)****ECONOMIC CONDITION**

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial "advanced funding" method is used to provide for the accumulation of assets to fund the cost of retirement, disability and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rates established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm every two years to determine the funding requirements for the employers participating in TCRS. On July 1, 2009, the plan had a combined state and teacher funding ratio of 90 percent. The July 1, 2009 actuarial valuation utilized the assumptions generated from the June 30, 2008 experience study and provided the employer contribution rates effective July 1, 2010.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 7.5 percent investment return assumed by TCRS. A premium will continue to be placed on security selection.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its comprehensive annual financial report for the fiscal year that ended June 30, 2009. This was the twenty-second consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers and other interested parties.



Jill Bachus, TCRS Director



Michael Brakebill, Chief Investment Officer

ADMINISTRATION AND MISSION

ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of TCRS are among the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department, which support the operations of TCRS, include Information Systems, Accounting, Management Services, Internal Audit and Human Resources. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the State of Tennessee. Funding for the operation of TCRS is provided by two sources. The State of Tennessee is responsible for the operation cost associated with state employees and higher education employees. The state and local education agencies share the cost related to K-12 teachers. Political subdivisions are responsible for the operation cost associated with their employees.

MISSION

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission will be accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and Insurance and the TCRS membership through the following objectives:

- ❖ *Exemplary Service* – To provide accurate, courteous and prompt service to members of TCRS.
- ❖ *Benefit Standards* – To provide retirement coverage through TCRS, Social Security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ *Funding Standards* – To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ *Staffing* – To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ *Research* – To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ *Management* – To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently while providing the highest level of service.
- ❖ *Ethical Standards* – To maintain the highest ethical standards.
- ❖ *Investment Return* – To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.

THE COUNCIL ON PENSIONS AND INSURANCE

THE COUNCIL ON PENSIONS AND INSURANCE

Created as a legislative oversight committee, the Council on Pensions and Insurance develops, recommends and establishes pension and retirement standards and maintains a progressive state policy on retirement. Additionally, the Council reviews legislation affecting state-provided insurance programs for both active and retired members of the Tennessee Consolidated Retirement System.

The Council periodically reviews Tennessee’s retirement and state-provided insurance provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems, including those of other states, private industry and the federal government’s Social Security program. All proposed legislation affecting Tennessee’s retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and propose amendments which are

then forwarded to the standing committees. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of the TCRS director also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

VOTING MEMBERS - SENATORS



Tim Burchett
*Finance, Ways
& Means Secretary*



Douglas Henry
*Finance, Ways
& Means Vice-Chair*



James Kyle



Randy McNally
*Council Vice-Chair
Finance, Ways
& Means Chair*



Mark Norris



Ron Ramsey
Speaker of the Senate



Bo Watson



Jamie Woodson

(continued)

**THE COUNCIL ON PENSIONS AND INSURANCE
(CONTINUED)**

VOTING MEMBERS – REPRESENTATIVES



Stratton Bone



Bill Dunn



Craig Fitzhugh
*Council Chair
Finance, Ways
& Means Chair*



Steve McDaniel



Charles Sargent
*Finance, Ways
& Means Vice-Chair*



Johnny Shaw
*Finance, Ways
& Means Secretary*



Kent Williams
Speaker of the House

NON-VOTING MEMBERS



Jill Bachus
TCRS Director



Dave Goetz
*Commissioner of Finance
& Administration*



David H. Lillard, Jr.
State Treasurer



Deborah E. Story
Commissioner of Human Resources



Justin Wilson
Comptroller of the Treasury

THE BOARD OF TRUSTEES

THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (*T.C.A.*, Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions and Insurance (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

The three teachers are elected for three-year terms by the Representative Assembly of the Tennessee Education Association. State employees elect two representatives who also serve three-year terms. A retired teacher is selected by the Tennessee Retired Teachers Association.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

ELECTED MEMBERS



Michael Barker
Tennessee Retired
Teacher Association
Term Expires: June 30, 2013



Greg Elliott
Tennessee Bureau of Investigation
Term Expires: June 30, 2013



Erick Huth
Middle Tennessee Teacher
Term Expires: June 30, 2012



Traci Jefferson
East Tennessee Teacher
Term Expires: June 30, 2013



Sammy Jobe
West Tennessee Teacher
Term Expires: June 30, 2011



Tommie Pendergrass
Department of
Financial Institutions
Term Expires: June 30, 2013

(continued)

**THE BOARD OF TRUSTEES
(CONTINUED)**

APPOINTED MEMBERS



Dennis Carroll
Public Safety
Term Expires:
June 30, 2013



Bill Kemp
Sumner County Clerk
Term Expires:
June 30, 2011



Alfred Laney
Retired Member
Term Expires:
June 30, 2012



David Seivers
*TN County
Services Assoc.*
Term Expires:
June 30, 2011



Ken Wilber
*Mayor
City of Portland*
Term Expires:
June 30, 2011

EX-OFFICIO MEMBERS



Jill Bachus
TCRS Director



Craig Fitzhugh
Council Chair



Dave Goetz
*Commissioner of Finance
& Administration*



Tre Hargett
Secretary of State



David H. Lillard, Jr.
State Treasurer



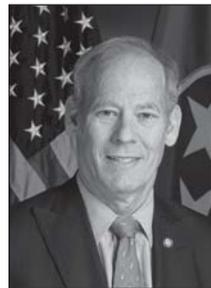
Randy McNally
Council Vice-Chair



Deborah E. Story
Commissioner of Human Resources



Libby Sykes
Administrative Director of the Courts



Justin Wilson
Comptroller of the Treasury

PROFESSIONAL CONSULTANTS**PROFESSIONAL CONSULTANTS**

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on page 50.

INVESTMENT ADVISORY COUNCIL

The Investment Advisory Council (IAC) was established to assist both the Board of Trustees and the TCRS investment staff. The investment professionals on the IAC serve five-year terms, meet quarterly and are available to the TCRS staff for consultation. IAC members include:

Frederick S. Crown, CFA (retired)
Regions Bank
Nashville, Tennessee

Henry Delicata
Vendis Investment Management
West Conshohocken, Pennsylvania

Susan Logan Huffman, CFA
Reliant Investment Management, LLC
Memphis, Tennessee

George B. Stadler, CFA
HMS Capital Management, LLC
Nashville, Tennessee

Chuck Webb, CFA
Weaver C. Barksdale & Associates
Brentwood, Tennessee

GENERAL INVESTMENT AND PRIVATE EQUITY CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Pete Keliuotis
Strategic Investment Solutions, Inc.
333 Bush Street, Suite 2000
San Francisco, California 94104

INTERNATIONAL EQUITY INVESTMENT MANAGERS

The international equity investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Gerard Branka
Pyramis Global Advisors, LLC
53 State Street
Boston, Massachusetts 02109

Joel Brous
American Century Investments
666 Third Avenue, 23rd Floor
New York, New York 10017

Peter Curry
TT International
Moor House, Level 13, 120 London Wall
London, EC2Y 5ET, UK

Paul Eisenhardt
GE Asset Management, Inc.
3001 Summer Street
Stamford, Connecticut 06904

Robert Job
PanAgora Asset Management, Inc.
260 Franklin Street, 22nd Floor
Boston, Massachusetts 02110

Dr. Kenneth J. Lyall
Walter Scott & Partners, Ltd.
One Charlotte Square
Edinburgh EH2 4DZ
Scotland, UK

Eric Maskalunas
Baring Asset Management, Inc.
Independence Wharf, 470 Atlantic Avenue, 9th Floor
Boston, Massachusetts 02210

Jeffrey Nelson
Société Générale Asset Management
c/o Trust Company of the West
1251 Avenue of the Americas, Suite 4700
New York, New York 10020

Wilson Phillips
Marathon - London
Orion House, 5 Upper St. Martin's Lane
London WC2H 9EA, UK

(continued)

**PROFESSIONAL CONSULTANTS
(CONTINUED)**

REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Richard Brown
The Townsend Group
500 East Eighth Avenue
Suite 300
Denver, Colorado 80203

The real estate investment advisors identify potential co-investors as well as prospective real estate transactions.

Martin G. Alston
Capri Capital Partners LLC
875 N. Michigan Avenue #3430
Chicago, Illinois 60611

Paul M. Canning
UBS Realty Investors LLC
242 Trumbull Street
Hartford, Connecticut 06103

Lawrence Ostow
J.P. Morgan Investment Management, Inc.
245 Park Avenue, 2nd Floor
New York, New York 10167

Rob Greer
ING Clarion Partners LLC
601 13th Street Northwest
Suite 700 North
Washington, DC 20005

Richard B. Putnam
RREEF America LLC
575 Anton Boulevard, #200
Costa Mesa, California 92626

Reid Parker
TA Realty LLC
28 State Street, 10th Floor
Boston, Massachusetts 02109

Steve Wallace
Cornerstone Real Estate Advisers LLC
300 South Wacker Drive
Suite 3550
Chicago, Illinois 60606

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60603

THE MEDICAL BOARD

The Medical Board evaluates applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, the panel reviews medical data submitted by disabled retirees who are subject to periodic evaluation. The Medical Board consists of the following:

Suzanne Fletcher, M.D.
Brentwood, Tennessee

Barry R. Siegel, M.D.
Memphis, Tennessee

Lee Carl Whitaker, M.D.
Chattanooga, Tennessee

CONSULTING ACTUARY

An independent consulting firm performs an actuarial valuation every two years to determine the funding status of the TCRS and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker
Bryan, Pendleton, Swats & McAllister, LLC
5301 Virginia Way, Suite 400
Brentwood, Tennessee 37027

OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These officers are as follows:

Robert E. Cooper, Jr.
Attorney General/Reporter
Nashville, Tennessee

Justin P. Wilson
Comptroller of the Treasury
Nashville, Tennessee

TREASURY DEPARTMENT EXECUTIVE STAFF

TREASURER'S OFFICE

Treasurer	David H. Lillard, Jr.	615-741-2956
Chief of Staff	Janice H. Cunningham	615-741-2956
Staff Assistant to the Treasurer	Joy Harris	615-741-2956
Human Resources Director	Ann Taylor-Tharpe	615-532-3347

TCRS INVESTMENTS

Assistant to the Treasurer	Ed Hennessee, CFP	615-532-1167
Chief Investment Officer	Michael Brakebill, CFA	615-532-1157
Deputy CIO and Fixed Income Director	Andrew Palmer, CFA	615-532-1183
Equity Director	Michael Keeler, CFA	615-532-1165
Real Estate Director	Peter Katseff	615-532-1160
Cash Management and Short-Term Portfolio Manager	Tim McClure, CCM	615-532-1166

RETIREMENT ADMINISTRATION

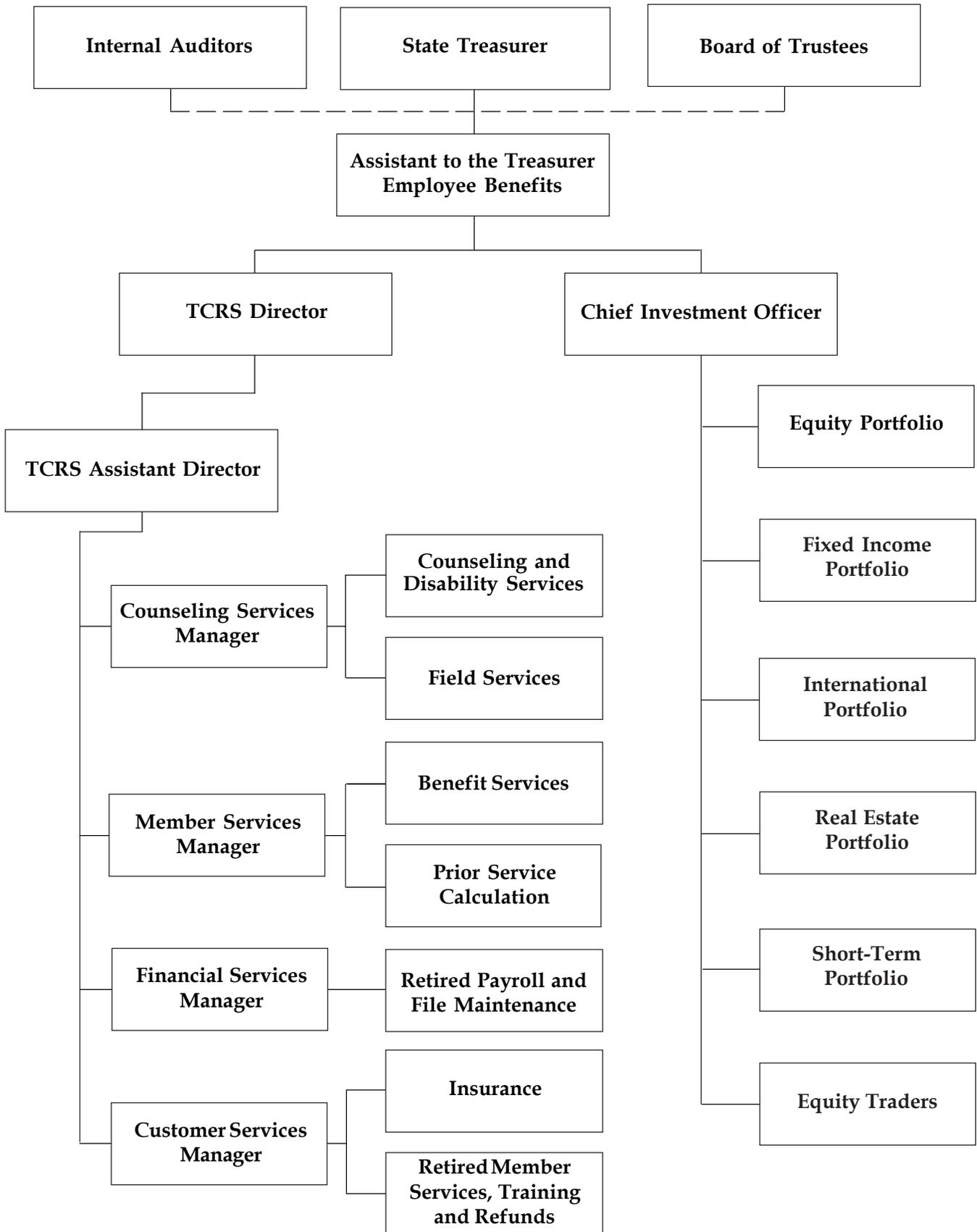
TCRS Director	Jill Bachus, CPA	615-741-7063
TCRS Assistant Director	Jamie Wayman, CPA	615-741-7063
Director of Deferred Compensation	Beth Chapman, CPA	615-741-7063
General Counsel	Mary Roberts-Krause, JD	615-741-7063
Director of Old Age and Survivors Insurance	Vernon G. Bush, JD	615-741-7902
Counseling Services Manager	Sandra Sewell	615-741-1971
Member Benefits Manager	Erica Nale	615-741-4868
Financial Services Manager	Keevia Battle, CPA	615-741-4913
Customer Services Manager	Jennifer Wooten	615-532-3170

OTHER DIVISIONS

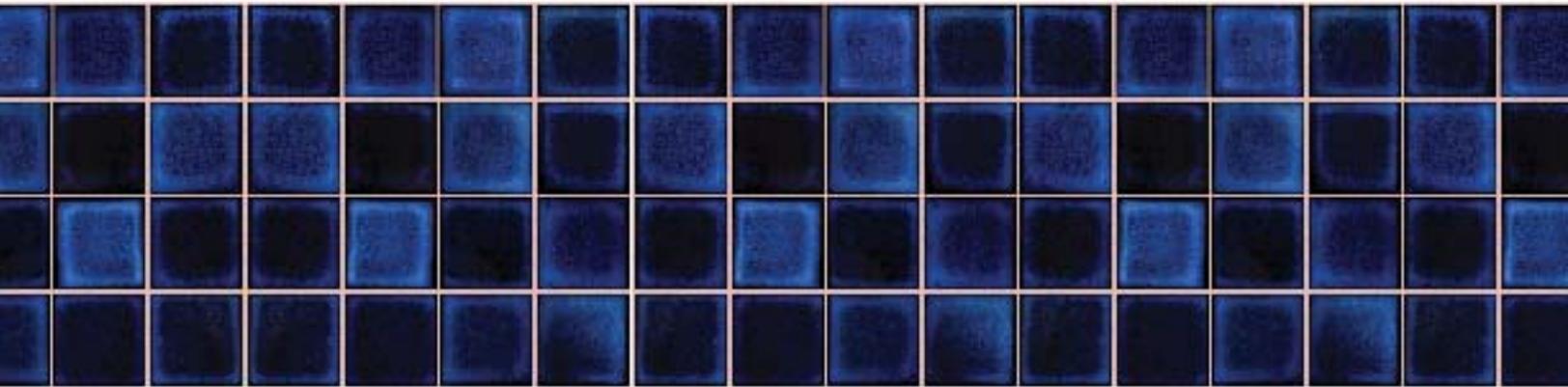
Assistant to the Treasurer	Steven Curry, CPA-inactive, CEBS, CCM	615-532-8045
Assistant to the Treasurer	Rick DuBray, CPA	615-253-5764
Director of Accounting	Kim Morrow, CPA	615-532-3840
Assistant Director of Accounting	Connie Gibson, CPA	615-532-8051
Director of Claims Administration	Anne Adams	615-741-9957
Director of Information Systems	Gary Ridner, CPA-inactive, CISSP	615-532-8035
Director of Computer Operations	Sam Baker, CCP, CDP	615-532-8026
Director of Management Services	Kerry Hartley, CPA	615-532-8552
Director of Internal Audit	Britt Wood, CPA	615-253-2018
Director of Risk Management	Steve Gregory	615-741-1009
Director of Unclaimed Property	John Gabriel	615-253-5354
East Tennessee Claims Commissioner	Bill Shults, JD	423-613-4809
Middle Tennessee Claims Commissioner	Stephanie Reeves, JD	615-253-1625
West Tennessee Claims Commissioner	Nancy Miller-Herron, JD	731-364-2440
Administrative Clerk, Claims Commission	Marsha Richeson	615-532-5385

*The Treasurer is housed on the 1st floor of the State Capitol Building.
Divisions are housed on the 9th, 10th and 11th floors of the Andrew Jackson Building.*

ORGANIZATION CHART



*Tennessee
Consolidated
Retirement
System*



Financial Section

INDEPENDENT AUDITOR'S REPORT



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
 DEPARTMENT OF AUDIT
 DIVISION OF STATE AUDIT
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December 22, 2010

Members of the General Assembly
 and
 Members of the Board of Trustees
 Tennessee Consolidated Retirement System
 and
 The Honorable David H. Lillard, Jr., Treasurer
 State Capitol
 Nashville, Tennessee 37243

Ladies and Gentlemen:

We have audited the accompanying statements of plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2010, and June 30, 2009, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Tennessee Consolidated Retirement System's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

As discussed in Note A.1., the financial statements present only the Tennessee Consolidated Retirement System, pension trust funds of the State of Tennessee, and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2010, and June 30, 2009, and the changes in its financial position

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**INDEPENDENT AUDITOR'S REPORT
(CONTINUED)**

December 22, 2010
Page Two

for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Tennessee Consolidated Retirement System as of June 30, 2010, and June 30, 2009, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A.5., during the year ended June 30, 2010, the Tennessee Consolidated Retirement System implemented Governmental Accounting Standards Board Statement 53, *Accounting and Financial Reporting for Derivative Instruments*.

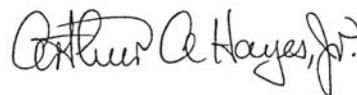
The management's discussion and analysis and the schedules of funding progress and employer contributions, as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory, investment, actuarial, and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with generally accepted government auditing standards, we have also issued our report dated December 22, 2010, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with generally accepted government auditing standards and should be considered in assessing the results of our audit.

Sincerely,



Arthur A. Hayes, Jr., CPA
Director

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 & JUNE 30, 2009**

The Management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal years ended June 30, 2010 and June 30, 2009. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes.

FINANCIAL HIGHLIGHTS

- ◆ The plan net assets (total assets minus total liabilities) of the TCRS at June 30, 2010 were \$28.6 billion, increasing nearly \$2.2 billion (8.4 percent) from the plan net assets at June 30, 2009. The net assets are held in trust to meet future benefit obligations.
- ◆ The TCRS relies upon contributions from employees and employers, along with investment income, to meet the funding requirements of an actuarially determined accrued liability. As of July 1, 2009, the date of the latest actuarial valuation, the TCRS' funded ratio was 90.6 percent for the SETHEEPP group and 86.3 percent for the PSPP group.
- ◆ Contribution revenue for fiscal year 2010 totaled \$1,091,776,287 an increase of .1 percent compared to fiscal year 2009.
- ◆ Net investment income for fiscal year 2010 was \$2,692,345,919. During fiscal year 2010, the TCRS received an investment return on its portfolio of 10.24 percent, compared to (15.27) percent for fiscal year 2009.
- ◆ Total benefits and refunds paid for fiscal year 2010 were \$1,571,610,009 – an increase of 5.5 percent over fiscal year 2009 total benefits and refunds paid of \$1,489,685,109.
- ◆ Total administrative expenses for fiscal year 2010 were \$7,542,822 – a 4.7 percent increase over fiscal year 2009 administrative expenses of \$7,202,572.

OVERVIEW OF THE FINANCIAL STATEMENTS

The TCRS financial statements consist of the *Statement of Plan Net Assets* (on pages 22 through 23), the *Statement of Changes in Plan Net Assets* (on pages 24 through 25), and the *Notes to the Financial Statements* (on pages 26 through 37). In addition, *Required Supplementary Information* is presented, which includes this *Management's Discussion and Analysis*, as well as the schedules on pages 38 through 39.

The *Statement of Plan Net Assets* and the *Statement of Changes in Plan Net Assets* report information about the plan net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those plan net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the *Statement of Plan Net Assets*, or net assets held in trust for pension benefits, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The *Statement of Changes in Plan Net Assets* provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the plan net assets of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

In addition to the two basic financial statements, the reader should also review the *Schedules of Funding Progress* and the *Schedules of Employer Contributions* to gain an understanding of the funded status of the TCRS over time. This information provides an indication of the TCRS' ability to meet both current and future benefit payment obligations. The *Notes to the Financial Statements* are also essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 & JUNE 30, 2009 (CONTINUED)**

ANALYSIS OF ASSETS, LIABILITIES AND PLAN NET ASSETS

At June 30, 2010, the TCRS had plan net assets (total assets in excess of total liabilities) of \$28.6 billion, an increase of nearly \$2.2 billion (8.4 percent) from \$26.4 billion at June 30, 2009, following the fiscal year 2009 decrease of over \$5.3 billion (16.6 percent) from the \$31.6 billion of plan net assets as of June 30, 2008. The assets of the TCRS consist primarily of investments. The increase in plan assets is primarily the result of strong investment returns in equity and fixed income markets. Condensed financial information comparing the TCRS' plan net assets for the past three fiscal years follows.

PLAN NET ASSETS

	June 30, 2010	June 30, 2009	FY10 - FY09 Percentage Change	June 30, 2008	FY09 - FY08 Percentage Change
ASSETS					
Cash and cash equivalents	\$ 438,269,286	\$ 1,267,296,450	(65.4) %	\$ 358,321,692	253.7 %
Member and employer receivables	89,310,527	74,112,021	20.5 %	86,041,851	(13.9) %
Investment receivables	2,000,061,173	1,373,061,675	45.7 %	376,428,540	264.8 %
Short-term securities	0	391,283,896	(100.0) %	49,997,750	682.6 %
Long-term investments	27,911,282,071	24,664,493,110	13.2 %	31,015,208,805	(20.5) %
TOTAL ASSETS	<u>30,438,923,057</u>	<u>27,770,247,152</u>	9.6 %	<u>31,885,998,638</u>	(12.9) %
LIABILITIES					
Death benefits, refunds and other payables	8,205,512	7,364,733	11.4 %	1,591,252	362.8 %
Investment payables	1,856,522,455	1,393,656,704	33.2 %	250,277,904	456.8 %
TOTAL LIABILITIES	<u>1,864,727,967</u>	<u>1,401,021,437</u>	33.1 %	<u>251,869,156</u>	456.2 %
NET ASSETS HELD IN TRUST					
FOR PENSION BENEFITS	<u>\$ 28,574,195,090</u>	<u>\$ 26,369,225,715</u>	8.4 %	<u>\$ 31,634,129,482</u>	(16.6) %

ANALYSIS OF REVENUES AND EXPENSES

While contributions to TCRS had a slight increase of \$1.3 million (.1 percent) over contributions for fiscal year 2009, a significant increase of \$7.6 billion (155.4 percent) in investment income resulted in the overall increase in revenues for 2010 of 200.4 percent compared to revenues for fiscal year 2009. Employer contribution rates did not change in fiscal year 2010; therefore, the small increase in contributions can be attributed to increased salaries. Employer contribution rates for the TCRS changed during fiscal year 2009 leading to an increase in contributions of \$6.4 million (.6 percent) over contributions for fiscal year 2008.

Investment expenses for fiscal year 2010 increased \$7,522,165 (35.3 percent) due to the market appreciation in the externally-managed assets in 2010 and their partial recovery from the decrease of \$3,254,164 in fiscal year 2009. Improved market conditions in fiscal year 2010 resulted in an overall gain to the TCRS investment portfolio of 10.24 percent and net investment income of \$2.7 billion from fiscal year 2009. Net investment loss for fiscal year 2009 was \$4.8 billion due to the unfavorable market conditions which resulted in an overall decline in revenues for 2009 of over 676 percent compared to revenues for fiscal year 2008 and resulted in an overall loss to the TCRS investment portfolio of 15.27 percent for fiscal year 2009, compared to a loss of 1.2 percent and negative investment income of \$430.1 million for fiscal year 2008.

Total benefits and refunds paid during the year ended June 30, 2010 were \$1,571,610,009, an increase of 5.5 percent over fiscal year 2009 total benefits and refunds paid. Total benefits and refunds paid during the year ended June 30, 2009 were \$1,489,685,109, an increase of 8.0 percent over fiscal year 2008 total benefits and refunds paid. The increase in benefit expenses for fiscal year 2010 is attributed to more retirees being added to payroll than removed during this fiscal year. The

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 & JUNE 30, 2009 (CONTINUED)**

increase in benefit and refund expenses in fiscal year 2009 can be attributed to 3.0 percent in cost of living adjustments awarded to retirees on July 1, 2008, as well as, more retirees being added to payroll than removed during this fiscal year. Total refunds paid increased \$4.4 million (13.7 percent) in fiscal year 2010 over fiscal year 2009 and can be attributed to the weak economy where more terminated members are choosing to withdraw from the system instead of leaving the funds invested. The large 30.4 percent decrease of \$13.9 million in refunds paid in fiscal year 2009 over fiscal year 2008 is attributed to a large employer withdrawing from the plan in fiscal year 2008 and taking a refund of their assets.

In addition, administrative expenses for the year ended June 30, 2010 were \$7,542,822, an increase of 4.7 percent over fiscal year 2009 administrative expenses. This increase was primarily due to the additional expense of the biennial actuarial study performed in fiscal year 2010. Administrative expenses for the year ended June 30, 2009 were \$7,202,572, an increase of less than one percent over fiscal year 2008 administrative expenses.

Condensed financial information comparing the TCRS' revenues and expenses for the past three fiscal years follows.

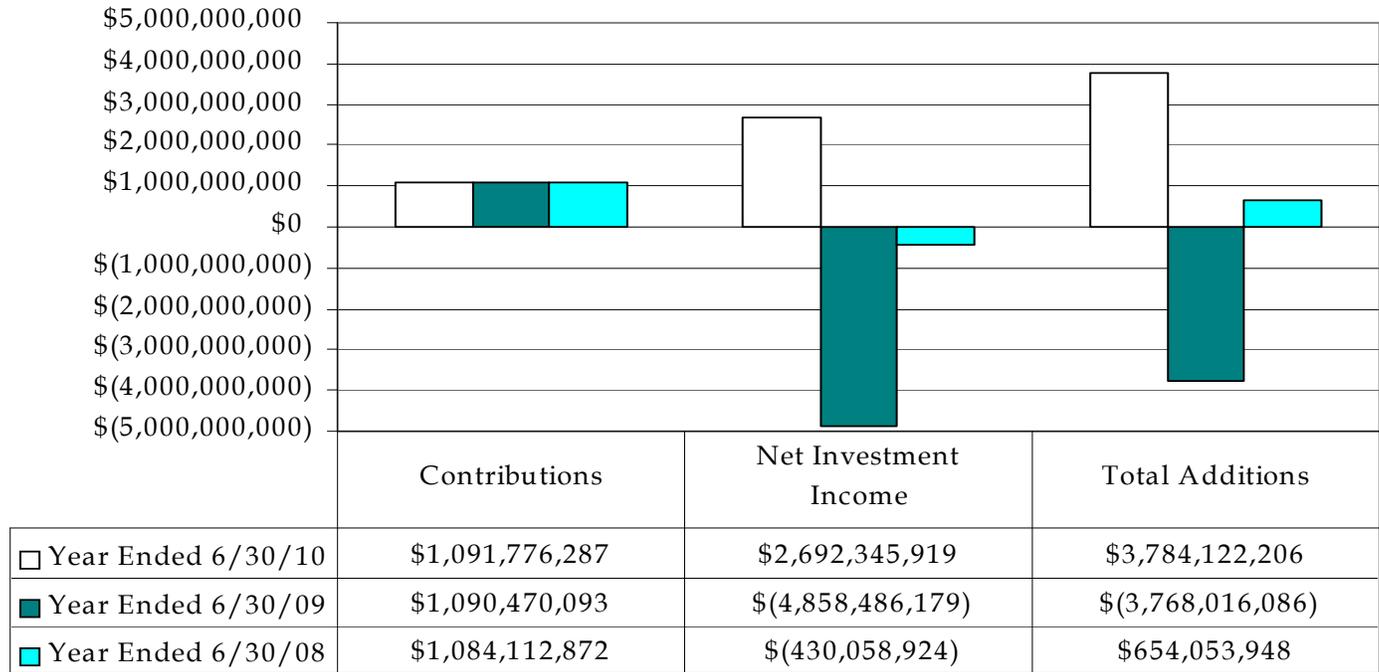
CHANGES IN PLAN NET ASSETS

	For the Year Ended June 30, 2010	For the Year Ended June 30, 2009	FY10 - FY09 Percentage Change	For the Year Ended June 30, 2008	FY09 - FY08 Percentage Change
ADDITIONS					
Contributions	\$ 1,091,776,287	\$ 1,090,470,093	0.1 %	\$ 1,084,112,872	0.6 %
Investment income					
Net appreciation (depreciation) in fair value of investments	1,802,314,559	(5,855,240,629)	130.8 %	(1,574,090,230)	(272.0) %
Interest, dividends and other investment income	918,842,338	1,018,043,263	(9.7) %	1,168,574,283	(12.9) %
Less: Investment expense	(28,810,978)	(21,288,813)	35.3 %	(24,542,977)	(13.3) %
Net investment income	2,692,345,919	(4,858,486,179)	155.4 %	(430,058,924)	(1,029.7) %
TOTAL ADDITIONS	3,784,122,206	(3,768,016,086)	200.4 %	654,053,948	(676.1) %
DEDUCTIONS					
Annuity benefits					
Retirement benefits	1,164,713,725	1,083,753,159	7.5 %	993,293,429	9.1 %
Survivor benefits	71,380,041	66,732,833	7.0 %	62,811,272	6.2 %
Disability benefits	30,500,247	29,607,231	3.0 %	28,128,249	5.3 %
Cost of living	261,479,337	271,845,658	(3.8) %	243,575,211	11.6 %
Death benefits	7,114,008	5,724,443	24.3 %	4,907,479	16.6 %
Refunds	36,422,651	32,021,785	13.7 %	45,975,885	(30.4) %
Administrative expenses	7,542,822	7,202,572	4.7 %	7,201,911	0.0 %
TOTAL DEDUCTIONS	1,579,152,831	1,496,887,681	5.5 %	1,385,893,436	8.0 %
NET INCREASE (DECREASE)	2,204,969,375	(5,264,903,767)	141.9 %	(731,839,488)	(619.4) %
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
BEGINNING OF YEAR	26,369,225,715	31,634,129,482	(16.6) %	32,365,968,970	(2.3) %
END OF YEAR	<u>\$ 28,574,195,090</u>	<u>\$ 26,369,225,715</u>	8.4 %	<u>\$ 31,634,129,482</u>	(16.6) %

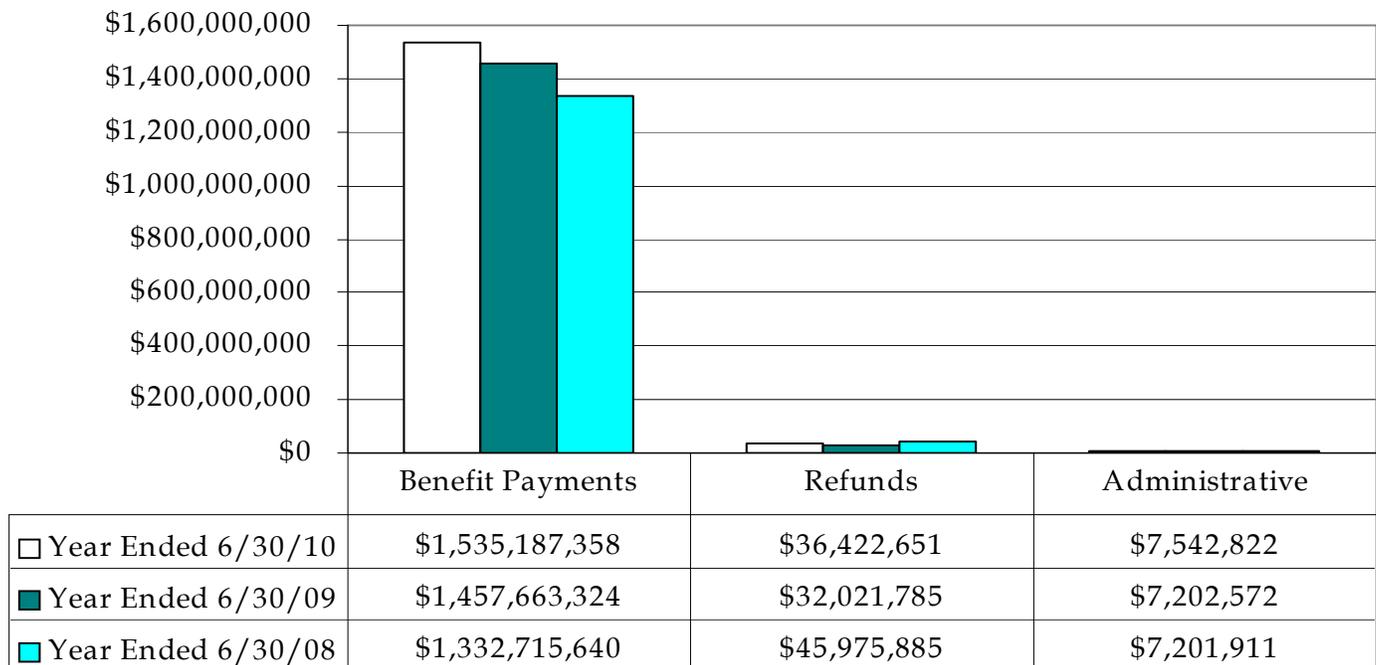
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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 & JUNE 30, 2009 (CONTINUED)**

REVENUES BY TYPE



EXPENSES BY TYPE



(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED JUNE 30, 2010 & JUNE 30, 2009 (CONTINUED)**

ECONOMIC FACTORS, FUTURE FUNDING PROVISIONS, OVERALL OUTLOOK

For the year ended June 30, 2010, the portfolio enjoyed strong performance from all major asset classes. The domestic equity portfolio generated 13.73 percent rebounding from a loss of 27.11 percent in the prior year. The S&P 1500 index, TCRS' domestic equity benchmark, reported a gain of 15.56 percent following a loss of 26.34 percent for the fiscal year ended June 30, 2009. Likewise, the international stock portfolio gained 9.73 percent for the year following a loss of 30.63 percent for the year ended June 30, 2009. The international equity market, as represented by the EAFE IMI index, reported a loss of 30.71 percent in the fiscal year ended June 30, 2009 followed by a gain of 6.63 percent in the fiscal year ended June 30, 2010. The domestic bond market, as measured by the Citigroup Broad Investment Grade Index had a positive return of 7.04 percent for the year ended June 30, 2009 followed by a gain of 9.03 percent in the year ended June 30, 2010. The domestic fixed income portfolio earned 2.07 percent for fiscal year 2009 followed by a gain of 13.89 percent for fiscal 2010. Fixed income performance enjoyed a solid relative gain driven by the rebound in relatively risky fixed income securities. The real estate portfolio suffered a loss of 16.33 percent for the 2010 fiscal year which followed a loss of 10.74 percent in fiscal year 2009. The real estate portfolio lost 5.64 percent for the three years ending fiscal year 2010 compared with a loss of 4.32 percent for the NCREIF index return.

Equity and fixed income markets rebounded strongly in fiscal year 2010 which was a continuation of the overall improvement that occurred after March 2009. Overall the environment is characterized by significant signs of cyclical economic improvement somewhat offset by continuing deflationary pressures resulting from declining levels of private sector debt levels. While the overall economic and market outlook has improved, significant questions remain about the vitality and durability of the current rebound.

An actuarial valuation was performed as of July 1, 2009. The employer contribution rates determined in this valuation were effective July 1, 2010. The required contributions to the plan increased primarily due to investment returns and mortality improvements.

CONTACTING THE TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2010 AND JUNE 30, 2009

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ASSETS		
Cash and cash equivalents	\$ 362,240	\$ 76,029
Receivables		
Member receivable	22,006	4,957
Employer receivable	43,752	18,596
Accrued interest receivable	88,666	18,610
Accrued dividends receivable	25,731	5,400
Real estate income receivable	75	16
Derivative instruments receivable	557,809	117,075
Investments sold	980,820	205,859
Total receivables	<u>1,718,859</u>	<u>370,513</u>
Investments, at fair value		
Short-term securities	0	0
Government securities	7,142,965	1,499,198
Corporate securities	4,406,274	924,808
Corporate stocks	10,690,206	2,243,709
Derivative instruments	3,524	740
Private equities	21,996	4,617
Real estate	804,412	168,833
Total investments	<u>23,069,377</u>	<u>4,841,905</u>
TOTAL ASSETS	<u>25,150,476</u>	<u>5,288,447</u>
LIABILITIES		
Accounts payable		
Death benefits and refunds payable	1,000	792
Retiree insurance premium payable	5,137	1,078
Other	198	0
Investments purchased	969,207	203,422
Derivative instruments payable	560,589	117,659
Other investment payables	4,667	979
TOTAL LIABILITIES	<u>1,540,798</u>	<u>323,930</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u><u>\$ 23,609,678</u></u>	<u><u>\$ 4,964,517</u></u>

See accompanying Notes to the Financial Statements.

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June 30, 2010 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	June 30, 2009 Total
\$ 438,269	\$ 1,055,329	\$ 211,967	\$ 1,267,296
26,963	19,308	4,544	23,852
62,348	32,444	17,816	50,260
107,276	92,607	18,601	111,208
31,131	24,654	4,952	29,606
91	223	45	268
674,884	836,535	168,022	1,004,557
1,186,679	189,385	38,038	227,423
<u>2,089,372</u>	<u>1,195,156</u>	<u>252,018</u>	<u>1,447,174</u>
0	325,838	65,446	391,284
8,642,163	6,287,715	1,262,913	7,550,628
5,331,082	4,624,271	928,804	5,553,075
12,933,915	8,629,509	1,733,273	10,362,782
4,264	0	0	0
26,613	0	0	0
973,245	997,630	200,378	1,198,008
<u>27,911,282</u>	<u>20,864,963</u>	<u>4,190,814</u>	<u>25,055,777</u>
<u>30,438,923</u>	<u>23,115,448</u>	<u>4,654,799</u>	<u>27,770,247</u>
1,792	1,293	281	1,574
6,215	4,598	923	5,521
198	270	0	270
1,172,629	257,079	51,636	308,715
678,248	899,421	180,652	1,080,073
5,646	4,054	814	4,868
<u>1,864,728</u>	<u>1,166,715</u>	<u>234,306</u>	<u>1,401,021</u>
<u>\$ 28,574,195</u>	<u>\$ 21,948,733</u>	<u>\$ 4,420,493</u>	<u>\$ 26,369,226</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009**

Expressed in Thousands

	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)
ADDITIONS		
Contributions		
Member contributions	\$ 190,635	\$ 64,414
Employer contributions	578,403	258,324
Total contributions	<u>769,038</u>	<u>322,738</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	1,494,405	307,909
Interest	482,315	99,369
Dividends	226,610	46,687
Real estate income, net of operating expenses	52,952	10,910
Total investment income	<u>2,256,282</u>	<u>464,875</u>
Less: Investment expense	(23,877)	(4,934)
Net investment income	<u>2,232,405</u>	<u>459,941</u>
TOTAL ADDITIONS	<u>3,001,443</u>	<u>782,679</u>
DEDUCTIONS		
Annuity benefits		
Retirement benefits	994,439	170,275
Survivor benefits	60,945	10,435
Disability benefits	26,041	4,459
Cost of living	231,084	30,395
Death benefits	4,694	2,420
Refunds	19,371	17,052
Administrative expense	3,924	3,619
TOTAL DEDUCTIONS	<u>1,340,498</u>	<u>238,655</u>
NET INCREASE (DECREASE)	1,660,945	544,024
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
BEGINNING OF YEAR	21,948,733	4,420,493
END OF YEAR	<u>\$23,609,678</u>	<u>\$4,964,517</u>

See accompanying Notes to the Financial Statements.

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(CONTINUED)

For the Year Ended June 30, 2010 Total	State Employees, Teachers, Higher Education Employees Pension Plan (SETHEEPP)	Political Subdivisions Pension Plan (PSPP)	For the Year Ended June 30, 2009 Total
\$ 255,049	\$ 185,729	\$ 67,830	\$ 253,559
836,727	583,985	252,926	836,911
<u>1,091,776</u>	<u>769,714</u>	<u>320,756</u>	<u>1,090,470</u>
1,802,314	(4,892,001)	(963,239)	(5,855,240)
581,684	530,229	104,403	634,632
273,297	263,105	51,806	314,911
63,862	57,232	11,268	68,500
<u>2,721,157</u>	<u>(4,041,435)</u>	<u>(795,762)</u>	<u>(4,837,197)</u>
(28,811)	(17,787)	(3,502)	(21,289)
<u>2,692,346</u>	<u>(4,059,222)</u>	<u>(799,264)</u>	<u>(4,858,486)</u>
<u>3,784,122</u>	<u>(3,289,508)</u>	<u>(478,508)</u>	<u>(3,768,016)</u>
1,164,714	927,977	155,776	1,083,753
71,380	57,141	9,592	66,733
30,500	25,351	4,256	29,607
261,479	240,293	31,553	271,846
7,114	4,062	1,662	5,724
36,423	16,503	15,519	32,022
7,543	3,616	3,586	7,202
<u>1,579,153</u>	<u>1,274,943</u>	<u>221,944</u>	<u>1,496,887</u>
2,204,969	(4,564,451)	(700,452)	(5,264,903)
26,369,226	26,513,184	5,120,945	31,634,129
<u>\$ 28,574,195</u>	<u>\$ 21,948,733</u>	<u>\$ 4,420,493</u>	<u>\$ 26,369,226</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of private equity investments is determined by the fund managers using various methodologies as applicable under Generally Accepted Accounting Principles. In many cases, these valuations are additionally reviewed by advisory boards comprised of a subgroup of the fund's investors. These valuations are audited on an annual basis by independent accounting firms engaged by the private equity fund managers. Investment income includes realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.
5. **Reclassification** - Foreign currency receivable of \$1,004,557,401 and foreign currency payable of \$1,080,072,824 have been reclassified as derivative instruments receivable and derivative instruments payable on the June 30, 2009 statement of plan net assets. In addition, \$24,884,347.64 total (\$20,722,206.50 - SETHEPP and \$4,162,141.14 - PSPP) has been moved from foreign currency receivable and foreign currency payable to investments sold and investments purchased in accordance with the implementation of GASB 53 - Accounting and Financial Reporting for Derivative Instruments. This amount is the notional value of spot currency exchange contracts that were outstanding at June 30, 2009 which do not meet the definition of a derivative.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2009, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	76,955	30,920
Terminated members entitled to but not receiving benefits	21,577	8,823
Current active members	<u>136,147</u>	<u>78,803</u>
Total	234,679	118,546
Number of participating employers	140	482

State Employees, Teachers and Higher Education Employees Pension Plan

Plan Description - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; and (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

Superseded Systems and Certain Employment Classifications - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

Contributions and Reserves - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2010, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.62 billion and \$19.98 billion, respectively. At June 30, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$3.56 billion and \$18.39 billion, respectively.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Political Subdivisions Pension Plan

Plan Description - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Contributions and Reserves - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve. At June 30, 2010, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.05 billion and \$3.91 billion, respectively. At June 30, 2009, the plan's Member Reserve and Employer Reserve were fully funded with balances of \$1.01 billion and \$3.40 billion, respectively.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

(continued)

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)**

State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets. Gross exposure to approved fixed income financial instruments will be limited to 10% of the market value of the System's total assets for risk mitigating positions and 10% for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Changes were made to the statute relative to the investment guidelines for the TCRS during the 2008 legislative session and approved by the board of Trustees on September 30, 2008. Prior to these changes, the allowable real estate allocation was five percent (5 percent) and investment in private equities was not permitted. The authorization for derivative instruments was also expanded with allowable notional exposures of ten percent (10 percent) of the value of the fund for fixed income instruments and 10% for equity futures.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2010 and June 30, 2009, the TCRS had the following investments:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Investments
(Expressed in Thousands)

Investment Type	Fair Value As of June 30, 2010	U. S. Treasury/ Agency (1)	Credit Quality Ratings									
			AAA	AA	A	BBB	BB	B	CCC	CC	A1 (3)	Not Rated
Debt Investments												
U.S. Govt. Agencies	\$ 449,980											\$ 449,980 (2)
U.S. Govt. Inflation Indexed	2,331,362	\$ 2,331,362										
U.S. Govt. Treasuries, Notes, Bonds	1,280,095	1,270,056	\$ 10,039									
U. S. Govt. Asset Backed Municipal Bonds	141,172 104,066	141,172		\$ 42,709	\$ 61,357							
Govt. Mortgage Backed	3,227,126	511,824										2,715,302 (2)
Commercial Mortgage Backed	454,043		383,543	51,718	18,782							
Corporate CMO's	410,479		63,468				\$ 18,065	\$ 90,299	\$ 217,956	\$ 11,783		8,908
Corporate Bonds	3,480,681		103,873	403,578	1,057,367	\$ 1,717,864	142,240	33,999		414		21,346
Corporate Asset Backed	959,443		656,144	142,133	43,677	65,621			15,580			36,288
Non-U.S. Govt./Sovereign	1,108,361		441,896	595,060								71,405
Short-Term Commercial Paper	251,101										\$ 251,101	
Short-Term Agencies	160,997											160,997
Total Debt Investments	\$ 14,358,906	\$ 4,254,414	\$ 1,658,963	\$ 1,235,198	\$ 1,181,183	\$ 1,783,485	\$ 160,305	\$ 124,298	\$ 233,536	\$ 12,197	\$ 251,101	\$ 3,464,226
Other Investments												
U.S. Equity	\$ 8,780,486		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.									
Non-U.S. Equity	4,179,865		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.									
Derivatives	4,264											
Real Estate	973,245											
Private Equities	26,613											
Commingled Money Market Funds	(204)		(3) A1 is the highest rating category for commercial paper.									
Total Other Investments	\$ 13,964,269											
Total Investments	\$ 28,323,175											
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(411,893)											
Total Investments as Shown on Statements of Plan Net Assets	\$ 27,911,282											

Investment Type	Fair Value As of June 30, 2009	U. S. Treasury/ Agency (1)	Credit Quality Ratings									
			AAA	AA	A	BBB	BB	B	CCC	CC	A1 (3)	Not Rated
Debt Investments												
U.S. Govt. Agencies	\$ 530,395	\$ 13,525	\$ 431,244									\$ 85,626
U.S. Govt. Inflation Indexed	2,073,076	2,073,076										
U.S. Govt. Treasuries, Notes, Bonds	1,202,822	1,202,822										
Govt. Mortgage Backed	2,921,531	454,436										2,467,095 (2)
Commercial Mortgage Backed	792,148		762,591	\$ 29,557								
Corporate CMO's	462,296		53,299	9,312	\$ 22,978	\$ 50,310	\$ 38,440	\$ 117,731	\$ 140,579			29,647
Corporate Bonds	3,093,094		93,218	197,419	943,540	1,659,344	131,428	12,145	7,945			48,055
Corporate Asset Backed	1,172,806		984,998	92,868		63,954			10,867			20,119
Non-U.S. Govt./Sovereign	822,804		403,642	419,162								
Short-Term Commercial Paper	636,343										\$ 636,343	
Short-Term Agencies	995,296		200,792									794,504
Total Debt Investments	\$ 14,702,611	\$ 3,743,859	\$ 2,929,784	\$ 748,318	\$ 966,518	\$ 1,773,608	\$ 169,868	\$ 129,876	\$ 159,391	\$ 0	\$ 636,343	\$ 3,445,046
Other Investments												
U.S. Equity	\$ 7,342,606		(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.									
Non-U.S. Equity	3,052,908		(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.									
Real Estate	1,198,008											
Commingled Money Market Funds	205		(3) A1 is the highest rating category for commercial paper.									
Total Other Investments	\$ 11,593,727											
Total Investments	\$ 26,296,338											
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(1,240,561)											
Total Investments as Shown on Statements of Plan Net Assets	\$ 25,055,777											

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2010 and June 30, 2009 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts, but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at <http://www.tn.gov/treasury/> or by calling (615) 741-2956.

Concentration of Credit Risk - AA concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

Issuer Organization	June 30, 2010		June 30, 2009	
	Fair Value	Percentage	Fair Value	Percentage
Federal National Mortgage Association	\$1,989,031,439	6.96%	\$1,933,810,560	7.33%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to \$100 million. There are no specific investment policies that limit investment in any one issuer.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Interest Rate Risk - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2010 and June 30, 2009.

Debt Investments

(Expressed in Thousands)

Investment Type	Fair Value As of June 30, 2010	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage-Backed	3,227,126	1.93
Government Asset-Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Collateralized Mortgage Obligations (CMO)	410,479	3.44
Commercial Mortgage-Backed	454,043	2.31
Corporate Asset-Backed Securities	959,443	0.55
Corporate Bonds	3,480,681	5.32
Guaranteed Fixed Income	10,039	0.25
Short-Term Commercial Paper	251,101	0.02
Short-Term Agencies	160,997	0.02
Total Debt Investments	\$ 14,358,906	4.05

Investment Type	Fair Value As of June 30, 2009	Effective Duration (years)
<u>Debt Investments</u>		
Government Agencies	\$ 765,734	5.81
Government Bonds	1,790,287	7.90
Government Inflation Indexed	2,073,076	5.62
Government Mortgage-Backed	2,921,531	3.28
Corporate Collateralized Mortgage Obligations (CMO)	462,296	0.50
Corporate Commercial Mortgage-Backed	792,148	2.98
Corporate Asset-Backed Securities	1,172,806	2.27
Corporate Bonds	3,093,094	5.76
Short-Term Commercial Paper	636,343	0.00
Short-Term Agencies	995,296	0.17
Total Debt Investments	\$ 14,702,611	4.29

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Asset-Backed Securities – The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2010 was \$864,521,465 of which \$510,179,228 were CMOs that are generally more sensitive to interest rate changes. The fair value of CMOs at June 30, 2009 was \$1,254,443,668 of which \$645,384,527 were CMOs that are generally more sensitive to interest rate changes.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2010 and June 30, 2009 was as follows:

Foreign Currency-Denominated Investments

(Expressed in Thousands)

Currency	Total Fair Value June 30, 2010	Fixed Income	Equity	Cash
Australian Dollar	\$ 211,803	\$ 13,958	\$ 195,247	\$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646	0	57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389	0	115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809	0	5,809	0
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583	0	57,470	1,113
Swedish Krona	67,405	0	67,393	12
Swiss Franc	241,077	0	240,991	86
Total	\$ 4,636,514	\$ 1,108,361	\$ 3,494,979	\$ 33,174

Currency	Total Fair Value June 30, 2009	Fixed Income	Equity	Cash
Australian Dollar	\$ 150,953	\$ 0	\$ 149,334	\$ 1,619
British Pound Sterling	694,406	96,355	595,414	2,637
Canadian Dollar	30,217	0	30,208	9
Danish Krone	32,296	0	32,282	14
Euro Currency	999,083	227,493	762,476	9,114
Hong Kong Dollar	88,179	0	88,017	162
Japanese Yen	1,168,096	432,965	729,820	5,311
New Zealand Dollar	6,536	0	6,536	0
Norwegian Krone	40,241	5,841	33,816	584
Singapore Dollar	35,648	0	34,649	999
Swedish Krona	53,054	0	53,040	14
Swiss Franc	237,098	0	237,073	25
Total	\$ 3,535,807	\$ 762,654	\$ 2,752,665	\$ 20,488

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Derivatives - The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At June 30, 2010, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value. As of June 30, 2009, the TCRS was not under any futures contracts.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Forward currency forward contracts expose the TCRS to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement. The TCRS did have option contract activity during the year ending June 30, 2010; however, there were no option contracts outstanding at June 30, 2010 or June 30, 2009.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010 and June 30, 2009, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the financial statements are as follows:

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Derivative Summary

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2010			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency						
Forward Contracts		\$ 2,575		\$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		(536)		(536)	6,287,850	JPY
	Investment Income	<u>\$ 2,297</u>	Derivative Instruments	<u>\$ 2,297</u>		
Futures Contracts	Investment Income	\$ (23,484)	Derivative Instruments Payable	\$ (3,364)	\$105,747	
TBA Mortgage Backed Securities	Investment Income	\$ 1,967	Derivative Instruments	\$ 1,967	\$474,634	

	Changes in Fair Value		Fair Value at June 30, 2009			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency						
Forward Contracts		\$ (35,869)		\$ (35,869)	275,000	EUR
		(33,541)		(33,541)	157,180	GBP
		(6,105)		(6,105)	42,000,000	JPY
	Investment Income	<u>\$ (75,515)</u>	Derivative Instruments Payable	<u>\$ (75,515)</u>		

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 75 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 95 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

Pending Real Estate Items - At June 30, 2010 the TCRS had unfunded commitments of \$28,500,000 for pending real estate purchases. At June 30, 2009 the TCRS did not have any commitments for pending real estate purchases.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date, is as follows:

SCHEDULES OF FUNDING PROGRESS						
<i>(Expressed in Thousands)</i>						
	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
PSPP	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2009, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(continued)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010 AND JUNE 30, 2009 (CONTINUED)

Additional information as of the latest actuarial valuation follows:

	<u>SETHEPP</u>	<u>PSPP</u>
Valuation Date	July 1, 2009	July 1, 2009
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year moving market average for FYE on or before June 30, 2007	5-year moving market average for FYE on or before June 30, 2007
	10-year moving market average for FYE after June 30, 2007	10-year moving market average for FYE after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%
(1) The length of the amortization period varies by political subdivision, not to exceed 30 years.		
(2) Uniform rate that approximates the effect of a graded salary scale.		

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

SCHEDULES OF FUNDING PROGRESS

Expressed in Thousands

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
SETHEPP	7/1/2009	\$ 26,335,199	\$ 29,054,966	\$ 2,719,767	90.64%	\$ 6,054,528	44.92%
	7/1/2007	\$ 26,214,995	\$ 27,240,151	\$ 1,025,156	96.24%	\$ 5,742,866	17.85%
	7/1/2005	\$ 23,627,161	\$ 23,666,967	\$ 39,806	99.83%	\$ 5,245,989	0.76%
PSPP	7/1/2009	\$ 5,304,455	\$ 6,143,775	\$ 839,320	86.34%	\$ 2,282,082	36.78%
	7/1/2007	\$ 4,897,974	\$ 5,475,620	\$ 577,646	89.45%	\$ 2,081,964	27.75%
	7/1/2005	\$ 4,124,013	\$ 4,450,127	\$ 326,114	92.67%	\$ 1,890,968	17.25%

The schedule of funding progress is intended to present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF EMPLOYER CONTRIBUTIONS**

SCHEDULES OF EMPLOYER CONTRIBUTIONS*Expressed in Thousands*

Year Ended June 30	SETHEEPP		PSPP	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2010	\$578,403	100.00%	\$258,324	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2011.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,151,155	\$1,061,470	\$2,212,625
Employee benefits	470,795	434,114	904,909
TOTAL PERSONNEL SERVICES	<u>1,621,950</u>	<u>1,495,584</u>	<u>3,117,534</u>
PROFESSIONAL SERVICES			
Accounting	90,777	83,705	174,482
Actuarial services	233,854	215,634	449,488
Address verification services	0	0	0
Data processing	193,585	178,503	372,088
Enterprise system development	228,703	210,884	439,587
Information systems	544,698	502,260	1,046,958
Management services	140,196	129,274	269,470
Medical review	19,770	18,230	38,000
Technology consulting services	41,092	37,891	78,983
Administrative, Internal Audit, Legal, Personnel	414,400	382,115	796,515
TOTAL PROFESSIONAL SERVICES	<u>1,907,075</u>	<u>1,758,496</u>	<u>3,665,571</u>
COMMUNICATION			
Travel	16,105	14,850	30,955
Telephone	32,492	29,962	62,454
Printing	35,636	32,859	68,495
Postage	167,615	154,556	322,171
TOTAL COMMUNICATION	<u>251,848</u>	<u>232,227</u>	<u>484,075</u>
MISCELLANEOUS			
Office space	104,440	96,303	200,743
Supplies and maintenance	12,493	11,520	24,013
Other services and charges	26,474	24,412	50,886
TOTAL MISCELLANEOUS	<u>143,407</u>	<u>132,235</u>	<u>275,642</u>
TOTAL ADMINISTRATIVE EXPENSES	<u>\$3,924,280</u>	<u>\$3,618,542</u>	<u>\$7,542,822</u>

With 214,711 active members and 112,133 retired members, the operating cost per member was \$23.08 for the year ended June 30, 2010.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009**

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$1,144,170	\$ 1,134,442	\$2,278,612
Employee benefits	450,081	446,253	896,334
TOTAL PERSONNEL SERVICES	<u>1,594,251</u>	<u>1,580,695</u>	<u>3,174,946</u>
PROFESSIONAL SERVICES			
Accounting	104,134	103,249	207,383
Actuarial services	81,673	80,978	162,651
Address verification services	40	40	80
Data processing	210,449	208,659	419,108
Enterprise system development	329,148	326,349	655,497
Information systems	447,931	444,122	892,053
Management services	144,094	142,868	286,962
Medical review	19,925	19,755	39,680
Technology consulting services	0	0	0
Administrative, Internal Audit, Legal, Personnel	383,195	379,937	763,132
TOTAL PROFESSIONAL SERVICES	<u>1,720,589</u>	<u>1,705,957</u>	<u>3,426,546</u>
COMMUNICATION			
Travel	13,747	13,630	27,377
Telephone	33,601	33,315	66,916
Printing	24,922	24,711	49,633
Postage	103,131	102,256	205,387
TOTAL COMMUNICATION	<u>175,401</u>	<u>173,912</u>	<u>349,313</u>
MISCELLANEOUS			
Office space	103,597	102,716	206,313
Supplies and maintenance	10,647	10,557	21,204
Other services and charges	12,176	12,074	24,250
TOTAL MISCELLANEOUS	<u>126,420</u>	<u>125,347</u>	<u>251,767</u>
TOTAL ADMINISTRATIVE EXPENSES	<u><u>\$3,616,661</u></u>	<u><u>\$3,585,911</u></u>	<u><u>\$7,202,572</u></u>

With 213,276 active members and 107,702 retired members, the operating cost per member was \$22.44 for the year ended June 30, 2009.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2010

	SETHEEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 2,018,103	\$ 417,002	\$ 2,435,105
Employee benefits	551,695	113,997	665,692
TOTAL PERSONNEL SERVICES	<u>2,569,798</u>	<u>530,999</u>	<u>3,100,797</u>
PROFESSIONAL SERVICES			
Accounting	177,682	36,714	214,396
Legal services	250,227	51,704	301,931
Data processing	157,195	32,481	189,676
Information systems	286,149	59,127	345,276
Management services	59,575	12,310	71,885
External investment manager fees	13,364,174	2,761,444	16,125,618
Investment consulting fees	608,078	125,647	733,725
Investment custodian fees	318,940	65,902	384,842
Real estate manager fees	5,432,746	1,122,571	6,555,317
Administrative, Internal Audit, Personnel	400,955	82,851	483,806
TOTAL PROFESSIONAL SERVICES	<u>21,055,721</u>	<u>4,350,751</u>	<u>25,406,472</u>
COMMUNICATION			
Travel	33,046	6,828	39,874
Telephone	18,449	3,812	22,261
Printing	2,267	468	2,735
Postage	1,045	216	1,261
TOTAL COMMUNICATION	<u>54,807</u>	<u>11,324</u>	<u>66,131</u>
MISCELLANEOUS			
Office space	77,132	15,938	93,070
Supplies and maintenance	5,757	1,190	6,947
Other services and charges	114,004	23,557	137,561
TOTAL MISCELLANEOUS	<u>196,893</u>	<u>40,685</u>	<u>237,578</u>
TOTAL INVESTMENT EXPENSES	<u>\$23,877,219</u>	<u>\$4,933,759</u>	<u>\$28,810,978</u>

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF INVESTMENT EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009**

	SETHEPP	PSPP	TOTAL
PERSONNEL SERVICES			
Salaries and wages	\$ 1,954,393	\$ 384,821	\$ 2,339,214
Employee benefits	540,778	106,480	647,258
TOTAL PERSONNEL SERVICES	<u>2,495,171</u>	<u>491,301</u>	<u>2,986,472</u>
PROFESSIONAL SERVICES			
Accounting	169,362	33,347	202,709
Legal services	113,674	22,383	136,057
Data processing	141,805	27,921	169,726
Information systems	283,354	55,793	339,147
Management services	8,044	1,584	9,628
External investment manager fees	6,151,297	1,211,194	7,362,491
Investment consulting fees	446,087	87,835	533,922
Investment custodian fees	322,732	63,546	386,278
Real estate manager fees	6,092,241	1,199,566	7,291,807
Administrative, Internal Audit, Personnel	503,165	99,075	602,240
TOTAL PROFESSIONAL SERVICES	<u>14,231,761</u>	<u>2,802,244</u>	<u>17,034,005</u>
COMMUNICATION			
Travel	48,412	9,532	57,944
Telephone	15,298	3,012	18,310
Printing	1,734	342	2,076
Postage	1,315	259	1,574
TOTAL COMMUNICATION	<u>66,759</u>	<u>13,145</u>	<u>79,904</u>
MISCELLANEOUS			
Office space	78,313	15,420	93,733
Supplies and maintenance	4,730	931	5,661
Other services and charges	909,882	179,156	1,089,038
TOTAL MISCELLANEOUS	<u>992,925</u>	<u>195,507</u>	<u>1,188,432</u>
TOTAL INVESTMENT EXPENSES	<u>\$17,786,616</u>	<u>\$3,502,197</u>	<u>\$21,288,813</u>

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
SCHEDULES OF EXPENSES FOR CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2010 AND JUNE 30, 2009

FOR THE YEAR ENDED JUNE 30, 2010

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	\$ 202,710	\$ 186,916	\$ 389,626
Gabriel, Roeder, Smith & Company	31,144	28,718	59,862
TOTAL ACTUARIAL SERVICES	<u>233,854</u>	<u>215,634</u>	<u>449,488</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	5,473	5,047	10,520
Barry Siegel, M.D.	7,305	6,735	14,040
Lee Carl Whitaker, M.D.	6,992	6,448	13,440
TOTAL MEDICAL REVIEW SERVICES	<u>19,770</u>	<u>18,230</u>	<u>38,000</u>
TECHNOLOGY CONSULTING SERVICES			
L. R. Wechsler, Ltd.	17,969	16,569	34,538
The North Highland Company	23,123	21,322	44,445
TOTAL TECHNOLOGY CONSULTING SERVICES	<u>41,092</u>	<u>37,891</u>	<u>78,983</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 294,716</u>	<u>\$ 271,755</u>	<u>\$ 566,471</u>

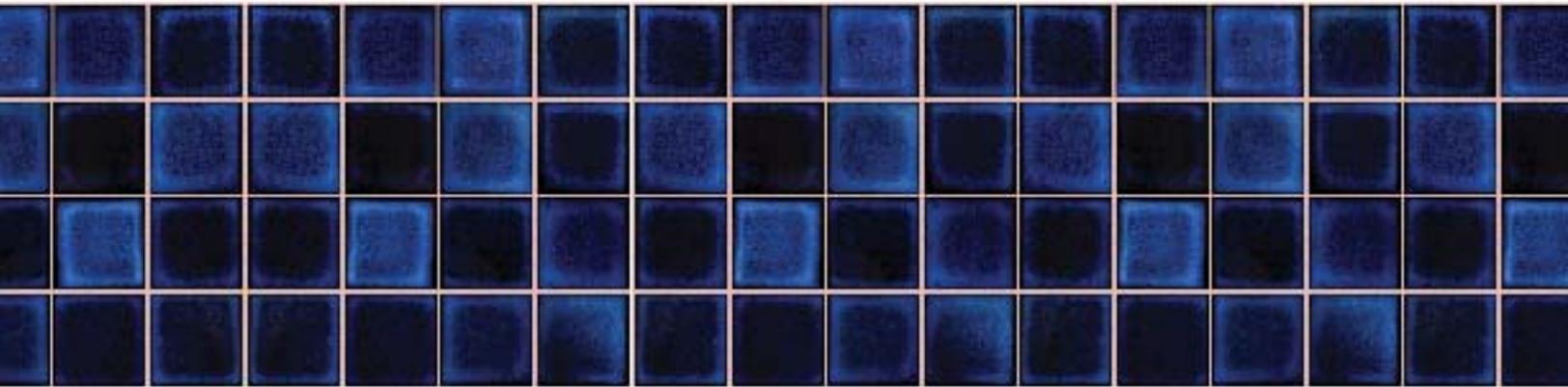
Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

FOR THE YEAR ENDED JUNE 30, 2009

	SETHEEPP	PSPP	TOTAL
ACTUARIAL SERVICES			
Bryan, Pendleton, Swats and McAllister	<u>\$ 81,673</u>	<u>\$ 80,978</u>	<u>\$ 162,651</u>
MEDICAL REVIEW SERVICES			
Suzanne Fletcher, M.D.	6,608	6,552	13,160
Barry Siegel, M.D.	6,708	6,652	13,360
Lee Carl Whitaker, M.D.	6,609	6,551	13,160
TOTAL MEDICAL REVIEW SERVICES	<u>19,925</u>	<u>19,755</u>	<u>39,680</u>
TOTAL EXPENSES FOR CONSULTANTS	<u>\$ 101,598</u>	<u>\$ 100,733</u>	<u>\$ 202,331</u>

Note: For information regarding fees paid to investment professionals, refer to the Investment Section of this report.

*Tennessee
Consolidated
Retirement
System*



Investment Section

REPORT BY INVESTMENT CONSULTANT

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL 415/362-3484 ■ FAX 415/362-2752

December 14, 2010

Jill Bachus
Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243 0230

Dear Jill:

Despite a volatile and poor display in the last quarter, global markets overall performed well for year ended June 30, 2010. With a 10.24% return, the total plan surpassed its policy benchmark by 20 basis points. US equity markets, led by median-capitalization and value-oriented stocks, weathered the turbulence in this year's second quarter with a strong finish to the fiscal year end. Although less impressive, international equities were also up, with emerging markets overshadowing developed regions. Bond results were positive across the board: asset-backed and corporate securities were the leading performers while agencies and treasuries lagged. Real estate markets still continue to struggle – but have shown signs of improvement compared to a year ago.

As of June 30, 2010, the System's asset allocation and one-year respective returns were:

Asset Class	% of Assets	One Year Return
Domestic Equity	33.0%	13.73%
International Equity	14.2%	9.31%
Domestic Fixed Income	35.9%	13.89%
International Fixed Income	3.6%	5.42%
Inflation-Indexed Fixed Income	8.2%	9.06%
Real Estate	3.4%	-16.33%
Private Equity*	0.1%	
Cash and Cash Equivalents	1.7%	.89%
Total	100.0%	10.24%

*started July 2009.

TCRS trailed State Street's Public Plan Sponsors (> \$100 million) universe median over the past year but was ahead for the three-year period. Underperformance was attributable to the plan's lower domestic equity allocation and sub-par domestic large cap returns relative to other large public funds. Disappointing comparative results from their real estate holdings were also a factor. Note that the overall asset allocation is geared not to maximize absolute returns but to meet the System's liabilities while minimizing the risk of loss.

Over the next five years, SIS foresees a decline in equity returns due to weaker global economic growth and lower corporate earnings. Bond prices will benefit as flight to quality increases and yields continue to be depressed. Unless the government intervenes, residential real estate markets will languish while commercial real estates markets continue to remain in a slump.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors.

Best regards,



Pete Keliuotis, CFA

LETTER FROM TCRS CHIEF INVESTMENT OFFICER

DAVID H. LILLARD, JR.
STATE TREASURER



JANICE CUNNINGHAM
CHIEF OF STAFF

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JILL BACHUS
DIRECTOR OF TCRS

December 14, 2010

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

With over \$28.5 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks. The investment performance for TCRS was computed using a market, time-weighted rate of return.

The 2010 fiscal year was encouraging for all investors and the TCRS portfolio experienced a gain of 10.2%. Additionally, the three-year returns for TCRS places it in the top 17% of comparable funds. Both short and longer-term results are a function of a risk-averse investment program which preserves capital in difficult environments.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer and the work of our dedicated staff, this goal will be met.

Sincerely,

A handwritten signature in cursive script, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

STATUTORY INVESTMENT AUTHORITY

STATUTORY INVESTMENT AUTHORITY

The investment authority of TCRS is prescribed in the *Tennessee Code Annotated*, Title 8, Chapter 37. This chapter provides that, with certain enumerated exceptions, investments of TCRS assets are subject to the same terms, conditions and limitations imposed on domestic life insurance companies as set forth in *T.C.A.*, Section 56, Chapter 3. The Board of Trustees of TCRS adopts investment policy relative to the investment of TCRS assets. The investment objective is to obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay beneficiaries in a timely manner. A summary of statutory and policy provisions follow.

DOMESTIC STOCKS

- ❖ No more than 50% of the TCRS portfolio may be invested in domestic common stock, preferred stock and convertible bonds.
- ❖ No more than 4.99% of the outstanding shares of any one company may be purchased.

DOMESTIC FIXED INCOME

- ❖ No more than 75% of the TCRS portfolio may be invested in fixed income securities exceeding one year.
- ❖ Only issues that are investment grade securities (four highest ratings) may be purchased.
- ❖ Private placements are limited to 15% of the domestic fixed income portfolio. Private placements may be purchased if staff evaluation determines that the credit quality is equivalent to double A.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.

INTERNATIONAL

- ❖ Combined International equity and fixed income investments are limited to 25% of the TCRS portfolio.

INTERNATIONAL EQUITY

- ❖ No more than 25% of the TCRS portfolio may be invested in international equity securities.
- ❖ Canadian securities shall be treated as domestic securities for policy purposes.
- ❖ The countries in the Morgan Stanley Capital International EAFE IMI index have been approved by the Board for international investing.

INTERNATIONAL FIXED INCOME

- ❖ No more than 10% of TCRS portfolio may be invested in international fixed income securities.
- ❖ Investments are limited to countries in the Morgan Stanley Capital International EAFE IMI index.

SHORT-TERM SECURITIES

- ❖ Commercial paper should be rated A1 or P1.

STOCK OPTIONS AND BOND FUTURES

- ❖ Limited to 10% of the portfolio.
- ❖ Only covered call options may be written.

DOMESTIC STOCK INDEX FUTURES

- ❖ Contracts shall not exceed 5% of the TCRS portfolio.
- ❖ Shall only be used for asset allocation purposes and not for speculative leveraging. The system's cash and short-term securities must exceed the amount of the contract obligation.

SECURITIES LENDING

- ❖ May not lend more than 30% of the portfolio.
- ❖ Collateral, other than cash, must have a market value of 102% of the security loaned.

STANDBY NOTE PURCHASE AGREEMENT

- ❖ TCRS may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority.

FOREIGN CURRENCY HEDGING

- ❖ May not exceed 80% of the international securities.

REAL ESTATE

- ❖ No more than 10% of the TCRS portfolio may be invested in real estate.

PRIVATE EQUITY

- ❖ No more than 5% of the TCRS portfolio may be invested in private equity.

PROXY VOTING

- ❖ Shall vote proxies in a manner which will provide the best ultimate value to shareholders.

INVESTMENT PERFORMANCE REVIEW

INVESTMENT PERFORMANCE REVIEW

Periods Ending June 30, 2010

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	10.24 %	(2.65)%	2.23 %
Policy Index	10.04 %	(2.14)%	2.81 %
Domestic Equity			
TCRS Performance	13.73 %	(9.95)%	(0.76)%
Benchmark - S & P 1500	15.56 %	(9.43)%	(0.49)%
Domestic Fixed Income			
TCRS Performance	13.89 %	7.20 %	5.41 %
Benchmark - Citigroup BIG	9.03 %	7.95 %	5.77 %
Inflation Hedged Bonds			
Citigroup TIPS Index	9.06 %	8.13 %	5.62 %
International Equity			
TCRS Performance	9.31 %	(10.79)%	3.08 %
Benchmark - MSCI EAFE IMI Index	6.63 %	(12.92)%	1.20 %
International Fixed Income			
TCRS Performance	5.42 %	9.95 %	5.37 %
Citigroup G5 - ex US Index	5.74 %	10.18 %	5.53 %
Real Estate			
TCRS Performance	(16.33)%	(5.64)%	2.94 %
Benchmark - NCREIF Index	(9.60)%	(4.32)%	4.19 %
Short-Term Securities			
TCRS Performance	1.89 %	2.58 %	3.28 %

	Strategic Investment Solutions	
	<u>Percentile Rankings</u>	<u>Risk Adjusted Basis</u>
Ranking of TCRS Portfolio		
Last three years	17	54
Last five years	73	80

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with 1 being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

ASSET ALLOCATION

ASSET ALLOCATION
as of June 30, 2010
Expressed in Thousands

Asset Class	Fair Value	Percentage
Domestic Equity	\$ 8,796,398	31%
Domestic Fixed Income	12,935,099	46%
International Equity	4,137,517	15%
International Fixed Income	1,038,146	4%
Short-Term Securities	411,893	1%
Real Estate	973,245	3%
Private Equities	26,613	0%
Derivative Instruments	<u>4,264</u>	<u>0%</u>
Totals	<u>\$28,323,175</u>	<u>100%</u>

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

LARGEST HOLDINGS

JUNE 30, 2010

LARGEST STOCK HOLDINGS

as of June 30, 2010

by Fair Value

Shares	Security Name	Fair Value
5,464,199	IShares MSCI EAFE Index Fund	\$ 254,139,895
4,015,015	Exxon Mobile Corporation	229,136,921
836,200	Apple Incorporated	210,329,386
7,492,400	Microsoft Corporation	172,400,124
1,362,500	International Business Machines Corporation	168,241,500
2,485,800	Procter & Gamble Company	149,098,284
2,027,830	Chevron Corporation	137,608,544
9,466,400	General Electric	136,505,488
3,560,975	J P Morgan Chase & Company	130,367,295
6,693,600	Intel Corporation	130,190,520

LARGEST BOND HOLDINGS

as of June 30, 2010

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$235,900,000	United States Treasury Infl Index Note	0.15%	01/15/16	Aaa	\$ 279,522,614
215,000,000	United States Treasury Note	0.15%	04/15/11	Aaa	240,061,828
199,100,000	United States Treasury Infl Index Bond	1.43%	01/15/26	Aaa	231,236,506
170,000,000	United States Treasury Infl Index Note	0.15%	01/15/14	Aaa	213,665,365
200,749,000	United States Treasury Note	1.59%	11/30/16	Aaa	205,814,700
163,000,000	United States Treasury Note	1.71%	03/31/17	Aaa	171,761,250
157,000,000	United States Treasury Note	1.47%	01/15/20	Aaa	162,066,081
121,000,000	United States Treasury Infl Index Note	0.15%	04/15/12	Aaa	134,660,637
100,000,000	United States Treasury Infl Index Bond	0.90%	01/15/25	Aaa	128,290,198
120,000,000	FNMA TBA 30 Year	0.00%	09/15/33	NR	123,506,280

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se', but are considered the best quality securities.

Moody's rates securities as follows:

Aaa: Best Quality
 Aa: High Quality
 A: Upper Medium Quality
 Baa: Medium Quality
 NR: Not Rated

INVESTMENT SUMMARY

INVESTMENT SUMMARY

as of June 30, 2010

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 3,696,684,511	13.05%	\$ 922,254,642	3.26%	\$ 4,618,939,153	16.31%
Corporate Bonds	3,480,680,145	12.29%	0	0.00%	3,480,680,145	12.29%
Municipal/Provincial Bonds	104,066,229	0.37%	13,958,281	0.05%	118,024,510	0.42%
Total Bonds	7,281,430,885	25.71%	936,212,923	3.31%	8,217,643,808	29.02%
Asset-Backed	1,036,747,167	3.66%	0	0.00%	1,036,747,167	3.66%
Commercial Mortgage-Backed	454,042,797	1.60%	0	0.00%	454,042,797	1.60%
Government Agencies	463,186,009	1.64%	76,881,862	0.27%	540,067,871	1.91%
Government Mortgage-Backed Securities	3,263,054,519	11.52%	0	0.00%	3,263,054,519	11.52%
Non-Government CMOs	425,212,691	1.50%	0	0.00%	425,212,691	1.50%
Guaranteed Fixed Income	10,039,450	0.04%	0	0.00%	10,039,450	0.04%
Preferred Stock	1,385,500	0.00%	25,051,515	0.09%	26,437,015	0.09%
Total Fixed Income	12,935,099,018	45.67%	1,038,146,300	3.67%	13,973,245,318	49.34%
Common Stock						
Consumer Discretionary	893,415,012	3.15%	425,088,210	1.50%	1,318,503,222	4.65%
Consumer Staples	952,986,108	3.36%	350,241,202	1.24%	1,303,227,310	4.60%
Energy	910,856,717	3.22%	264,680,728	0.93%	1,175,537,445	4.15%
Financials	1,410,702,457	4.98%	690,618,125	2.44%	2,101,320,582	7.42%
Healthcare	1,062,677,516	3.75%	304,243,110	1.07%	1,366,920,626	4.82%
Industrials	978,600,393	3.46%	609,020,342	2.15%	1,587,620,735	5.61%
Information Technology	1,659,093,451	5.86%	265,115,767	0.94%	1,924,209,218	6.80%
Materials	330,861,487	1.17%	377,631,617	1.33%	708,493,104	2.50%
Rights/Warrants	0	0.00%	152,766	0.00%	152,766	0.00%
Telecommunication Services	236,741,885	0.83%	121,180,886	0.43%	357,922,771	1.26%
Utilities	319,070,249	1.13%	86,270,218	0.30%	405,340,467	1.43%
Miscellaneous/Unclassified	41,392,428	0.15%	635,090,633	2.24%	676,483,061	2.39%
Unit Trust Equity	0	0.00%	8,183,533	0.03%	8,183,533	0.03%
Total Common Stock	8,796,397,703	31.06%	4,137,517,137	14.60%	12,933,914,840	45.66%
Short-Term Investments						
Commercial Paper	251,100,558	0.89%	0	0.00%	251,100,558	0.89%
Pooled Funds and Mutual Funds	(203,930)	0.00%	0	0.00%	(203,930)	0.00%
U.S. Government Securities	160,996,846	0.57%	0	0.00%	160,996,846	0.57%
Total Short-Term Investments	411,893,474	1.45%	0	0.00%	411,893,474	1.45%
Real Estate	973,245,133	3.44%	0	0.00%	973,245,133	3.44%
Private Equities	26,612,469	0.09%	0	0.00%	26,612,469	0.09%
Derivative Instruments	4,264,311	0.02%	0	0.00%	4,264,311	0.02%
Total Investments	23,147,512,108	81.73%	5,175,663,437	18.27%	28,323,175,545	100.00%
Short-Term Investments Classified as						
Cash Equivalents	(411,893,474)		0		(411,893,474)	
Total Investments as Shown on the Statement of Plan Net Assets	\$ 22,735,618,634		\$ 5,175,663,437		\$ 27,911,282,071	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULES OF FEES

	Average Assets Under Management	Fees
Asset Management		
International Investment Manager Fees	4.9 Billion	\$ 16,125,618
Real Estate Asset Management	1.1 Billion	6,555,317
Total Asset Management		<u>\$ 22,680,935</u>
Other Investment Services Fees		
Custodian Bank	28.7 Billion	\$ 396,000
General Investment Consultant	28.7 Billion	630,000
Real Estate Investment Consultant	1.1 Billion	125,000
Total Investment Services Fees		<u>\$ 1,151,000</u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
Capis	13,494,751	\$ 674,738	0.0500
Barclays Capital	25,136,962	510,953	0.0203
Bank of America Merrill Lynch	21,363,119	445,394	0.0208
Citigroup Global Markets, Inc.	21,069,057	436,218	0.0207
Cowen & Company, LLC	20,081,616	419,952	0.0209
JP Morgan Chase & Company	17,795,660	373,422	0.0210
BNY ESI & Company	42,476,831	339,319	0.0080
Instinet, LLC	19,017,572	308,559	0.0162
Morgan Stanley & Company, Inc.	8,719,093	219,287	0.0252
Morgan Keegan & Company, Inc.	9,944,100	212,997	0.0214
Deutsche Bank Securities, Inc.	8,952,763	192,467	0.0215
RBC Capital Markets Corporation	8,935,034	191,678	0.0215
Avondale Partners	7,894,151	173,684	0.0220
B.O.E. Securities, Inc.	5,819,788	156,370	0.0269
Oppenheimer & Company, Inc.	6,849,900	151,629	0.0221
Jefferies & Company, Inc.	6,241,121	140,945	0.0226
M.R. Beal & Company	4,072,431	111,895	0.0275
Other Brokers*	50,646,889	1,113,928	0.0220
Totals	<u>298,510,838</u>	<u>\$ 6,173,435</u>	

(continued)

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2010 (CONTINUED)**

Program Trades where total commission cost includes trading commission, liquidity fees, and market impact fees.

Broker Name	DOMESTIC		
	Shares Traded	Commissions	Commission Per Share
BNY ESI & Company	40,844,302	\$ 612,665	0.0150
Credit Suisse	40,619,887	609,298	0.0150
Capis	37,810,909	553,511	0.0146
JP Morgan Chase & Company	34,058,131	510,872	0.0150
RBC Capital Markets Corporation	13,327,652	166,335	0.0125
Citigroup Global Markets, Inc.	13,553,001	151,868	0.0112
Cowen & Company, LLC	10,449,700	104,497	0.0100
Other Brokers*	22,961,617	273,461	0.0119
Totals	213,625,199	\$ 2,982,507	

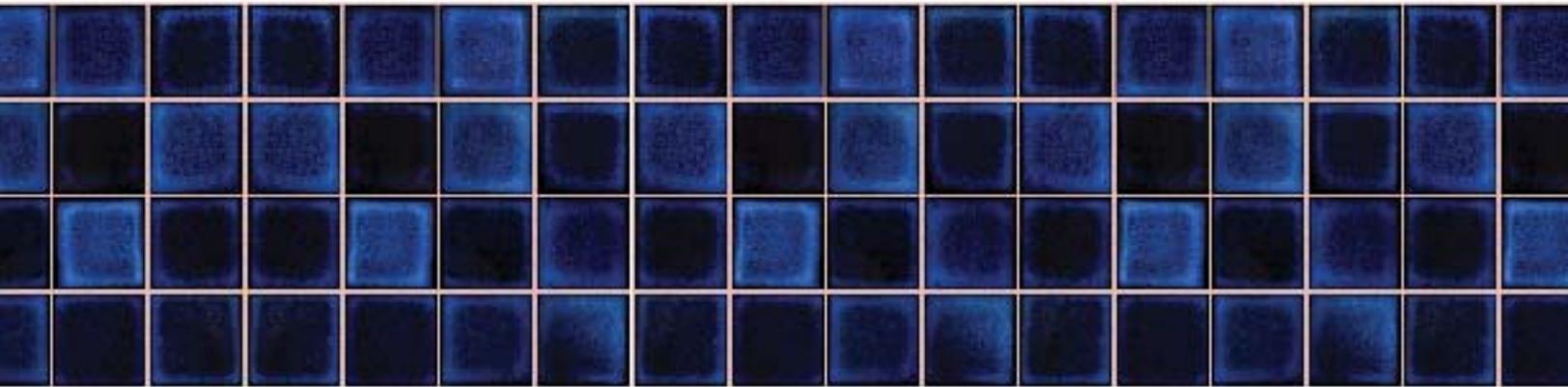
International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Shares Traded	Commissions	Commission Per Share
UBS Securities LLC	8,291,716	\$ 490,683	0.0592
Citigroup Global Markets, Inc.	11,426,946	450,100	0.0394
Bank of America Merrill Lynch	7,672,272	428,583	0.0559
Credit Suisse	4,636,352	424,292	0.0915
JP Morgan Chase & Company	22,957,483	400,118	0.0174
Goldman Sachs Group, Inc.	5,744,694	371,199	0.0646
Nomura Holdings Inc.	9,899,163	301,704	0.0305
Morgan Stanley & Company, Inc.	3,630,321	284,176	0.0783
Deutsche Bank Securities, Inc.	5,210,283	279,187	0.0536
Macquarie Group LTD	10,948,777	240,993	0.0220
Pershing LLC	647,321	178,694	0.2761
HSBC Bank PLC	2,543,979	158,819	0.0624
Investment Technology Goup, Inc.	6,023,028	142,271	0.0236
Credit Lyonnais Securities Asia	5,555,031	137,549	0.0248
ABN AMRO Group	7,769,371	118,317	0.0152
Instinet, LLC	1,628,051	113,745	0.0699
Daiwa Securities Group, Inc.	1,512,599	101,323	0.0670
Other Brokers*	63,682,963	1,333,365	0.0209
TOTALS	179,780,350	\$ 5,955,118	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

*Less than \$100,000 total commission per brokerage firm

*Tennessee
Consolidated
Retirement
System*



Actuarial Section

ACTUARIAL INTRODUCTION**BIENNIAL ACTUARIAL VALUATIONS**

Biennial actuarial valuations of the TCRS are performed by an independent actuarial consulting firm to assess the funding status of the system and to determine employer contribution rates for its various components. The valuation performed as of July 1, 2007 set employer rates effective July 1, 2008 through June 30, 2010. The Board of Trustees of the system is responsible for adopting the employer contribution rates after reviewing the actuarial results. A valuation was performed as of July 1, 2009 to establish new employer rates effective July 1, 2010.

FUNDING OF PENSIONS

It is the policy of the state to fund pensions by actuarially-determined contributions which are intended to provide funding for both the normal liability cost and the unfunded actuarial accrued liability cost. This policy seeks to ensure that sufficient assets will be available to pay benefits as they are due.

ACCRUED LIABILITY

With the 2009 actuarial valuation, the accrued liability was reestablished for all groups within the plan. This was accomplished by setting the unfunded accrued liability equal to the excess of the Entry Age Normal Past Service Liability over the valuation assets for each group.

SPECIFICS

Valuations are based on demographic data (employee ages, salaries and service credits), economic projections (salary increases, interest rates and investment earnings) and decrement estimates (mortality and disability rates). The economic projections and decrement estimates used for valuation purposes utilized the assumptions recommended by the actuary and adopted by the Board of Trustees based on an actuarial experience study conducted every four years. The earnings rate assumption adopted by the Board is subject to the approval of the Council on Pensions and Insurance.

QUADRENNIAL EXPERIENCE STUDY

A quadrennial experience study was conducted as of June 30, 2008. A number of small changes were made to the economic and decrement assumptions. The system noted significant improvements in mortality. In addition, the COLA assumption was lowered from 3.0 percent to 2.5 percent to reflect actual experience. Assumptions developed from the June 30, 2008 experience study were used in the July 1, 2009 actuarial valuation.

ACTUARY'S CERTIFICATION LETTER



Justin C. Thacker, F.S.A.
Direct Line: (615) 665-5387
Email: Justin.Thacker@bpsm.com

December 9, 2010

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
Tennessee Consolidated Retirement System
Tenth Floor
Andrew Jackson State Office Building
Nashville, Tennessee 37243-0230

Re: Actuary's Certification Letter

Dear Mr. Lillard:

The purpose of this letter is to certify the actuarial adequacy of contributions being made by the State of Tennessee and participating Political Subdivisions to the Tennessee Consolidated Retirement System and to discuss the approach currently being taken toward meeting the financing objectives of the Plan.

The most recent biennial actuarial valuation of the Tennessee Consolidated Retirement System was performed as of July 1, 2009. That valuation was based on a set of actuarial assumptions (described in detail in the section headed "Summary of Actuarial Assumptions and Methods") which was adopted by the Board of Trustees on the recommendation of the actuary after a study of actual experience under the TCRS during the four-year period ending June 30, 2008.

There have been no significant changes in the level of benefits provided by the plan since the date of the preceding valuation.

The Board of Trustees in 1975 established as its financing objective the amortization of unfunded accrued liabilities over the ensuing 40-year period. In the years since then, the implementation of that general goal has involved a gradual strengthening of the methods utilized in computing required annual contributions. This has been accomplished by such steps as (1) taking advance funding of expected cost-of-living increases into account and (2) placing all amortization payments on a "level dollar" basis, a stronger basis than the "percentage of payroll" method previously utilized. As of July 1, 2009, the unfunded accrued liabilities for the major contribution classes were reestablished and amortized over a 20-year period.

In performing the 2009 valuation, we relied on employee data and asset information provided by the administrative staff of the Tennessee Consolidated Retirement System. In the case of employee data, each individual record was audited for reasonableness and internal consistency, although the validity of the information was not traced to source documents. With respect to plan assets, a general review for consistency with the information furnished for prior valuations was performed.

**ACTUARY'S CERTIFICATION LETTER
(CONTINUED)**

Mr. David H. Lillard, Jr.
Chairman, Board of Trustees
December 9, 2010
Page Two

Certain tables presented in the Comprehensive Annual Financial Report are derived from the July 1, 2009 actuarial valuation report prepared by Bryan, Pendleton, Swats and McAllister, LLC. The tables were prepared by the staff of the Tennessee Consolidated Retirement System and examined by our firm. These tables include the following –

Financial Section

- Schedules of Funding Progress
- Schedules of Employer Contributions

Actuarial Section

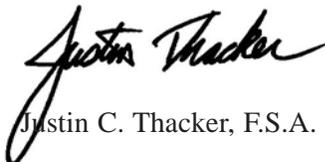
- Summary of Actuarial Assumptions and Methods
- Actuarial Data
- Actuarial Balance Sheet
- Short-Term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Selected Actuarial Funding Information
- Analysis of Financial Experience

The Schedule of Retired Member Activity in the Actuarial Data section was prepared by our firm using information gathered from prior actuarial valuations through 2009.

The 2009 valuation was prepared in accordance with accepted actuarial principles of practice prescribed by the Actuarial Standards Board and the principles of Governmental Accounting Standards Board Statement 25. I am a Member of the American Academy of Actuaries with experience in performing valuations for public retirement systems; all calculations were performed either by me or by other qualified actuaries under my direct supervision.

Based upon the valuation results and the contribution rates adopted by the Board of Trustees, it is our opinion that the Tennessee Consolidated Retirement System continues to fund its liabilities in accordance with standard actuarial principles of advance funding, continuing a program first adopted in 1975.

Sincerely,



Justin C. Thacker, F.S.A.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

The following assumptions were adopted by the Board of Trustees for use with the July 1, 2009 valuation based on the consulting actuary’s recommendations resulting from the June 30, 2008 actuarial experience study.

GENERAL ACTUARIAL METHODS

- ❖ *Actuarial Cost Method* (Frozen Entry Age) – The state and teacher unfunded accrued liabilities are being funded over a 20-year period. The amortization period related to local government unfunded accrued liabilities varies by entity.
- ❖ *Treatment of Actuarial Gains and Losses* – Under the Frozen Entry Age Method, any actuarial gains or losses are absorbed into the normal cost.
- ❖ *Asset Valuation Method* – Assets are valued on a basis which reflects a ten-year moving average of the fair market value. The actuarial value of assets must be within 80-120 percent of the market value of assets.
- ❖ *Valuation Data* – The administrative staff of TCRS furnishes the actuary with demographic data relating to the active life members and the retired life members. The fair value of system assets are also provided by retirement system staff. All data is reviewed for reasonableness and consistency from year to year, but is not audited by the actuary.
- ❖ *Post-Retirement Adjustments* – Retirement benefits are assumed to increase at the geometric rate of 2.5 percent annually, reflecting the 1997 adoption of compounded cost-of-living adjustments.

ECONOMIC ASSUMPTIONS

- ❖ *Investment Return Rate* – Seven and one-half percent (7½%) per annum, compounded annually.
- ❖ *Employee Salary Increases* – Graded scale that reflects the plan experience pattern of declining escalation rates as participant ages increase. No explicit assumption is made regarding the portion attributable to the effects of inflation on salaries. Active membership is assumed to remain constant.
- ❖ *Increase in Social Security Wage Base* – Three and one-half percent (3½%) annual increase.

DECREMENT ASSUMPTIONS

- ❖ *Post-Retirement Mortality* – Specifically adopted tables have been created to accurately reflect patterns that occur among TCRS retirees. Sample rates are below.

<i>Male</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.3%	0.4%
Age 60	0.6%	1.0%
Age 70	1.8%	2.2%

<i>Female</i>		
Age	Teachers	State and Political Subdivisions
Age 50	0.2%	0.2%
Age 60	0.5%	0.7%
Age 70	1.1%	1.3%

- ❖ *Preretirement Mortality* – Eighty percent (80%) of the PR-2000 Mortality Table is used for state employees and political subdivision employees. For teachers, the PR-2000 Mortality Table is used with an adjustment of 60 percent (60%).

- ❖ *Withdrawal Due to Disability* – Sample rates of disability based on experience:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.07%	0.03%
Age 40	0.08%	0.16%	0.08%
Age 50	0.17%	0.27%	0.38%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 30	0.01%	0.04%	0.03%
Age 40	0.08%	0.14%	0.08%
Age 50	0.17%	0.33%	0.38%

(continued)

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
(CONTINUED)

❖ *Turnover Assumption* – Tables for probabilities of separation due to termination of employment are developed utilizing a “two-year select and ultimate” approach.

<i>Teachers</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	18.0%	13.5%	6.0%
Age 40	18.0%	13.5%	2.0%
Age 50	19.7%	14.2%	2.0%
Female			
Age 30	18.0%	13.5%	7.6%
Age 40	18.0%	13.5%	2.3%
Age 50	19.7%	14.2%	1.6%

<i>State</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	23.0%	18.6%	9.6%
Age 40	18.6%	13.8%	2.6%
Age 50	14.8%	11.1%	2.2%
Female			
Age 30	23.0%	18.6%	10.3%
Age 40	18.6%	13.8%	3.4%
Age 50	14.8%	11.1%	2.3%

<i>Political Subdivisions</i>			
	1st Year	2nd Year	Ultimate
	Employment	Employment	
Male			
Age 30	21.8%	17.9%	7.4%
Age 40	19.2%	15.9%	3.5%
Age 50	17.0%	13.0%	2.8%
Female			
Age 30	21.8%	17.9%	11.1%
Age 40	19.2%	15.9%	5.4%
Age 50	17.0%	13.0%	3.8%

Retirement – The probabilities of retirement for members eligible to retire:

<i>Male</i>			
Age	Teachers	State	Political Subdivisions
Age 60	15.0%	8.5%	10.5%
Age 61	16.0%	11.0%	15.0%
Age 62	22.0%	16.0%	20.0%
Age 63	16.0%	12.0%	17.5%
Age 64	18.0%	14.0%	17.5%
Age 65	35.0%	22.0%	24.0%
Age 70	16.0%	15.5%	18.0%
Age 75	100.0%	100.0%	100.0%

<i>Female</i>			
Age	Teachers	State	Political Subdivisions
Age 60	17.0%	9.0%	11.0%
Age 61	20.0%	12.0%	13.0%
Age 62	26.0%	18.0%	18.0%
Age 63	19.5%	12.0%	16.0%
Age 64	24.0%	14.0%	16.0%
Age 65	37.5%	22.0%	22.0%
Age 70	34.0%	17.0%	19.0%
Age 75	100.0%	100.0%	100.0%

In addition, for members younger than age 60, a loading factor of 12.5 percent for teachers and 7.5 percent for state and political subdivision employees is added during the year the member is first eligible for unreduced retirement. After age 60, for those members with 15 or more years of service, an 8.0 percent load is added for teachers and 2.0 percent for state employees and political subdivision employees.

ACTUARIAL DATA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Actuarial Valuation	Number	Annual Payroll In Thousands	Average Annual Pay	Average Annual Percentage Increase In Average Pay
July 1				
1991	158,820	3,636,495	22,897	4.61%
1993	166,443	3,943,079	23,690	1.72%
1995	175,584	4,580,041	26,085	4.93%
1997	180,637	4,940,816	27,352	2.40%
1999	189,592	5,473,774	28,871	2.74%
2001	195,946	5,997,047	30,606	2.96%
2003	200,597	6,504,434	32,425	2.93%
2005	206,150	7,136,956	34,620	3.33%
2007	212,725	7,824,823	36,784	3.08%
2009	214,950	8,336,609	38,784	2.68%

SCHEDULE OF RETIRED MEMBER VALUATION DATA

Actuarial Valuation	Number	Annual Allowances In Thousands	Average Annual Allowances	Average Annual Percentage Increase In Annual Allowances
July 1				
1991	55,146	315,248	5,717	5.86%
1993	58,268	367,844	5,313	5.08%
1995	61,992	449,310	7,248	7.15%
1997	66,908	535,485	8,003	5.08%
1999	71,812	663,140	9,234	7.42%
2001	77,831	795,676	10,223	5.22%
2003	83,279	919,582	11,042	3.93%
2005	89,893	1,082,823	12,046	4.45%
2007	98,230	1,291,999	13,153	4.49%
2009	107,875	1,486,839	13,783	2.37%

SCHEDULE OF RETIRED MEMBER ACTIVITY

Expressed in Thousands

Actuarial Valuation	Added to Rolls		Removed from Rolls		Rolls - End of Year		% Increase in Annual Allowances	Average Annual Allowances
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances		
July 1								
2001	10,526	163,723	4,507	31,187	77,831	795,676	19.99%	10,223
2003	11,128	168,529	5,680	44,623	83,279	919,582	15.57%	11,042
2005	12,161	208,722	5,547	45,481	89,893	1,082,823	17.75%	12,046
2007	13,833	257,958	5,496	48,782	98,230	1,291,999	19.32%	13,153
2009	15,438	252,231	5,793	57,391	107,875	1,486,839	15.08%	13,783

Note: Timing differences exist between the data utilized for statistical information and that used for actuarial valuation purposes.

ACTUAL VS. RECOMMENDED CONTRIBUTION RATES

The Board adopted the contribution rates as recommended by the actuary.

ACTUARIAL BALANCE SHEET

ACTUARIAL BALANCE SHEET
as of July 1, 2009

	State Employees, Teachers, Higher Ed. Employees Pension Plan (SETHEEPP)	Political Subdivision Pension Plan (PSPP)	Total
ASSETS			
Present assets creditable to			
Employer accumulation fund	\$ 22,775,436,290	\$ 4,293,104,552	\$ 27,068,540,842
Members' accumulation fund	3,559,762,929	1,011,350,909	4,571,113,838
Total present assets	<u>26,335,199,219</u>	<u>5,304,455,461</u>	<u>31,639,654,680</u>
Present value of prospective contributions payable to:			
Employer accumulation fund			
Normal	3,975,132,757	1,312,768,669	5,287,901,426
Accrued liability	<u>2,719,767,478</u>	<u>839,320,076</u>	<u>3,559,087,554</u>
Total employer accumulation	6,694,900,235	2,152,088,745	8,846,988,980
Member's accumulation fund	<u>1,754,226,527</u>	<u>569,888,332</u>	<u>2,324,114,859</u>
Total prospective contributions	<u>8,449,126,762</u>	<u>2,721,977,077</u>	<u>11,171,103,839</u>
TOTAL ASSETS	<u><u>\$ 34,784,325,981</u></u>	<u><u>\$ 8,026,432,538</u></u>	<u><u>\$ 42,810,758,519</u></u>
LIABILITIES			
Present value of prospective benefits payable on account of:			
Present retired members and beneficiaries	\$ 14,122,766,225	\$ 2,190,077,255	\$ 16,312,843,480
Present active members	20,002,441,459	5,624,931,055	25,627,372,514
Former members	<u>659,118,297</u>	<u>211,424,228</u>	<u>870,542,525</u>
TOTAL LIABILITIES	<u><u>\$ 34,784,325,981</u></u>	<u><u>\$ 8,026,432,538</u></u>	<u><u>\$ 42,810,758,519</u></u>

UNAUDITED

SHORT-TERM SOLVENCY TEST

SHORT-TERMSOLVENCYTEST

The financing objective of the Tennessee Consolidated Retirement System is to pay for the benefits provided by the plan through contributions that remain approximately level from year to year as a percentage of payroll, except that the strategy to fund the unfunded accrued liability is to make level-dollar payments over an established amortization period. A short-term solvency test is one means of checking a system’s progress under its funding program. In a short-term solvency test, the plan’s present assets are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present

retired lives; and (3) the liabilities for service already rendered by active members. In a system that has been following the approach of level percent of payroll financing for some time, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) should be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) should be partially covered by the remainder of present assets. Generally, if the system has been using level cost financing, the funded portion of liability 3 will increase over time.

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities for:			Valuation Assets	Portion of Actuarial Accrued Liabilities Covered by Assets		
	(1) Active Member Contributions	(2) Retirees and Beneficiaries	(3) Active Members (Employer Financed)		(1)	(2)	(3)
1997 SETHEEPP (1)	\$ 2,141.7	\$ 5,456.1	\$ 8,185.1	\$ 15,671.7	100%	100%	99%
PSPP (1)	426.4	743.5	1,117.9	2,226.9	100%	100%	95%
Total	\$ 2,568.1	\$ 6,199.6	\$ 9,303.0	\$ 17,898.6	100%	100%	98%
1999 SETHEEPP	\$ 2,396.6	\$ 6,401.8	\$ 9,621.8	\$ 18,327.1	100%	100%	99%
PSPP	501.4	877.1	1,512.4	2,690.8	100%	100%	87%
Total	\$ 2,898.0	\$ 7,278.9	\$ 11,134.2	\$ 21,017.9	100%	100%	97%
2001 SETHEEPP	\$ 2,638.6	\$ 7,837.6	\$ 10,366.0	\$ 20,761.0	100%	100%	99%
PSPP	592.0	1,104.2	1,831.9	3,188.0	100%	100%	81%
Total	\$ 3,230.6	\$ 8,941.8	\$ 12,197.9	\$ 23,949.0	100%	100%	97%
2003 SETHEEPP	\$ 2,908.2	\$ 9,071.1	\$ 10,172.5	\$ 22,099.3	100%	100%	99%
PSPP	691.1	1,304.9	1,927.4	3,605.5	100%	100%	84%
Total	\$ 3,599.3	\$ 10,376.0	\$ 12,099.9	\$ 25,704.8	100%	100%	97%
2005 SETHEEPP	\$ 3,167.4	\$ 10,599.5	\$ 9,900.1	\$ 23,627.2	100%	100%	100%
PSPP	797.0	1,563.9	2,089.2	4,124.0	100%	100%	84%
Total	\$ 3,964.4	\$ 12,163.4	\$ 11,989.3	\$ 27,751.2	100%	100%	97%
2007 SETHEEP	\$ 3,386.8	\$ 12,544.7	\$ 11,308.6	\$ 26,215.0	100%	100%	91%
PSPP	896.8	1,902.9	2,676.0	4,898.0	100%	100%	78%
Total	\$ 4,283.6	\$ 14,447.6	\$ 13,984.6	\$ 31,113.0	100%	100%	89%
2009 SETHEEP	\$ 3,559.8	\$ 14,122.8	\$ 11,372.4	\$ 26,335.2	100%	100%	76%
PSPP	1,011.3	2,190.0	2,942.4	5,304.5	100%	100%	71%
Total	\$ 4,571.1	\$ 16,312.8	\$ 14,314.8	\$ 31,639.7	100%	100%	75%

(1) Includes effect of compound COLA and 3.6 percent indexing improvements.

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

<p>The unfunded accrued liability represents the excess of the accrued actuarial liability over the actuarial value of assets. For funding purposes, the Board of Trustees of TCRS has adopted the frozen initial liability method.</p> <p>Under this method, the unfunded accrued liability is being funded by level-dollar contributions during an amortization period which ends in the year 2027. Also, actuarial gains and losses are absorbed in normal cost rather than as part of the unfunded liability. The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses.</p> <p>For the July 1, 2009 actuarial valuation, the Board reestablished the unfunded accrued liability. In an</p>	<p>inflationary economy where the covered payroll continues to grow, the level-dollar amounts which are being contributed to fund the unfunded accrued liability will, if expressed as a percentage of payroll, continue to decrease.</p> <p>While concern is generally expressed regarding the dollar amount of the unfunded accrued liability, an analysis should also include the method being used to fund this liability as well as a review of this liability expressed as a percentage of active member payroll. The smaller the ratio of unfunded liabilities to the active member payroll, the stronger the system. A review of this ratio over a period of years will give an indication of whether the system is becoming financially stronger or weaker with respect to its unfunded liabilities.</p>
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SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES

Dollar Amounts Expressed in Millions

Actuarial Valuation July 1	Actuarial Accrued Liabilities (AAL)	Valuation Assets	Ratio Assets to AAL	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL as a Percentage of Active Member Payroll
1997 (3)	\$ 18,070.8	\$ 17,898.6	99.00%	\$ 172.2 (1)(2)	\$ 4,940.8	3.00%
1999	21,311.1	21,017.9	99.00%	293.2	5,473.8	5.00%
2001	24,370.4	23,949.0	98.00%	421.4 (2)	5,997.0	7.00%
2003	26,075.2	25,704.8	99.00%	370.4	6,504.4	6.00%
2005	28,117.1	27,751.2	99.00%	365.9 (2)	7,137.0	5.00%
2007	32,715.8	31,113.0	95.10%	1,602.8 (1)	7,824.8	20.48%
2009	35,198.7	31,639.7	89.89%	3,559.0 (1)(2)	8,336.6	42.69%

Notes:

- (1) Unfunded accrued liability was reestablished.
- (2) Includes adjustments for changes in actuarial assumptions.
- (3) Includes effect of compound COLA and 3.6 percent indexing improvement.

SELECTED ACTUARIAL FUNDING INFORMATION

SELECTED ACTUARIAL FUNDING INFORMATION

Actuarial Valuation Year	Earnings Assumptions	Salary Assumptions	Unfunded Liability		State Amortization Period (1)
			SETHEEPP	PSPP	
1997 (2)	7.50%	5.50%	\$ 111,172,072	\$ 61,012,975	18
1999	7.50%	5.50%	93,022,745	200,161,388	16
2001	7.50%	4.75% (3)	81,226,933	340,147,400	14
2003	7.50%	4.75% (3)	52,493,209	317,945,618	12
2005	7.50%	4.75% (3)	39,806,610	326,114,462	10
2007 (4)	7.50%	4.75% (3)	1,025,156,148	577,645,568	20
2009 (4)	7.50%	4.75% (3)	2,719,767,478	839,320,076	20

Notes:

- (1) The amortization period varies among political subdivisions participating in TCRS with the maximum period limited to 30 years.
- (2) Includes effect of compound COLA and 3.6 percent indexing improvement.
- (3) Graded Scale.
- (4) Unfunded liability was reestablished for all groups.

ANALYSIS OF FINANCIAL EXPERIENCE

GAIN AND LOSS ANALYSIS, JULY 1, 2009 VALUATION

	State and Higher Education	Teacher
Normal Cost		
Effective Employer Normal Cost Rate Pursuant to 2007 Valuation	13.11%	6.42%
Investment Results	5.62%	5.43%
Salary Increases: If there are smaller pay increases than assumed, the normal cost is reduced; if there are greater increases than assumed, the normal cost is increased.	(0.35%)	(0.53%)
New Entrants: Includes the effect where normal cost for new entrants since the previous valuation differs from the normal cost of the group.	(0.04%)	0.31%
Cost-of-Living Escalation: COLA in 2009 was 0.00%	(0.92%)	(0.88%)
Prior Service Purchases: Employee purchases of prior service credits result in liabilities to the plan that are not fully offset by related employee contributions	0.10%	0.10%
Contribution rate change delay	(0.07%)	0.03%
Retiree mortality	0.85%	0.63%
Other	(0.03%)	(0.81%)
Assumption changes resulting from 2008 experience study	(2.54%)	(1.35%)
Reestablishment of unfunded liability (20-year amortization)	(0.72%)	(0.30%)
Effective Employer Normal Cost Rate Pursuant to 2009 Valuation	15.01%	9.05%

**RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITIES
STATE EMPLOYEES, TEACHERS AND HIGHER EDUCATION EMPLOYEES**

Unfunded Actuarial Liabilities at June 30, 2009	\$ 2,719,767,478
Interest Accrual Fiscal Year 2009-2010	185,369,448
Contributions Made toward Unfunded Actuarial Liabilities (Fiscal Year 2009-2010)	(248,174,839)
Unfunded Actuarial Liabilities at June 30, 2010	\$ 2,656,962,087

INDEPENDENT ACTUARIAL REVIEW



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June 18, 2010

Board of Trustees
Tennessee Consolidated Retirement System
Tenth Floor
Andrew Jackson State Office Building
Nashville, Tennessee 37243-0230

Dear Board Members:

Gabriel, Roeder, Smith & Company (GRS) is pleased to present this Actuarial Audit of the July 1, 2009 Actuarial Valuation and Report of the Tennessee Consolidated Retirement System (TCRS). We are grateful to the staff of both the Tennessee Consolidated Retirement System and Bryan, Pendleton, Swats & McAllister, LLC (BPSM) for their cooperation throughout the Actuarial Audit process.

The Actuarial Audit has several related objectives:

- Review the reasonableness of the actuarial assumptions and methods,
- Review assumptions and methods for compliance with Professional Standards (generally accepted actuarial principles), State Law, and Board Regulations,
- Review the major economic assumptions (investment earnings, cost-of-living increases and salary) for reasonability and consistency,
- Determine whether the Teacher and General State employee groups are being funded on an adequate basis, and
- Validate the major valuation results.

GRS is pleased to report to the Board, that in our professional opinion, the July 1, 2009 Actuarial Valuation and Report prepared by BPSM accurately represents the financial position of the Retirement System. We have identified several issues that we think the retained actuary needs to address going forward.

Throughout this report we make a number of suggestions for ways to improve the work product. We hope BPSM and the Board find these items helpful. Thank you for the opportunity to work on this assignment.

The undersigned are Members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Gabriel Roeder Smith & Company

Brian B. Murphy, F.S.A.

Lawrence F. Wilson, A.S.A.

Peter N. Strong, A.S.A.

PLAN SUMMARY**HISTORY AND ADMINISTRATION**

The TCRS was established in 1972 by an Act of the Tennessee General Assembly. Seven existing retirement systems were consolidated to provide retirement, disability and death benefits to state employees, public school teachers, higher education employees and the employees of participating local governments. State laws governing the plan may be found in Chapters 34-37, 39 of Title 8, *Tennessee Code Annotated*. Amendments to the plan can only be made by legislation enacted by the General Assembly of the State of Tennessee.

A 20-member Board of Trustees has the responsibility to manage and oversee the operation of the consolidated system. The Board consists of nine ex-officio members from the executive, legislative and judicial branches of state government, nine representatives of the active TCRS membership and two representatives for retirees. Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; three representatives of local governments; one public safety officer; one retired state employee representative; and one retired teacher representative. Local government representatives are appointed for two-year terms by each of the following organizations: the Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. All employee representatives must be vested members of TCRS.

TCRS is administered by the Treasury Department under the legislative branch of state government. By state law, the State Treasurer serves as chairman of the Board of Trustees and as custodian of the funds of the system. The Director of the retirement system is appointed by the Treasurer and serves as the chief administrative officer of the plan.

The state is responsible for the pension cost of state employees and teachers; costs for the participation of local government employees are paid by political subdivisions. Administrative expenses are paid from employers' account balances. The operating budget is funded by local governments on a per-member fee basis and by state government as part of the employer contribution rate.

MEMBERSHIP

Membership in the retirement system is a condition of employment for full-time state employees, K-12 teachers, higher education general employees and the employees of participating local governments. Membership is optional for part-time state employees and the part-time employees of political subdivisions which have authorized such coverage.

Interim teachers and part-time teachers have optional membership. The faculty employees of institutions of higher education may elect participation in either TCRS or an optional retirement program (ORP), a defined contribution plan for higher education faculty.

CONTRIBUTIONS

TCRS membership became noncontributory on July 1, 1981 for most state employees, teachers in state supported institutions of higher education and teachers employed in the Department of Education. At that time, the contributions, up to five percent of compensation payable to these employees, were assumed by the state, but this amount continued to be credited to the individual members' accounts from employer funds. State employees hired after July 1, 1981 join TCRS as noncontributory members with no funds credited to their individual accounts.

Participating political subdivisions may either adopt noncontributory retirement provisions or require employee contributions. The contribution rate for local government employees is five percent up to the Social Security wage base and 5.5 percent above that base, unless the employing government has authorized a level five percent rate. Public school teachers contribute at a rate of five percent of gross salary.

Individual accounts are maintained for all contributory members with interest credited annually at a rate of five percent. Since the TCRS is a defined benefit plan, benefits are based upon the member's average final compensation and years of creditable service. The member's account balance including interest accrued has no bearing on the monthly benefit amount payable at retirement. Account balances plus interest are fully refundable upon termination of service or death.

(continued)

PLAN SUMMARY (CONTINUED)

Contributory members are now covered by Section 414(h) of the Internal Revenue Code. Under this provision, retirement contributions are made on a tax-deferred basis, with income tax due only when contributions are returned to members as benefits or refunds. Political subdivisions may adopt the 414(h) provision for their employees.

The state also makes contributions on behalf of higher education faculty members who select membership in the ORP. These contributions are equal to 10 percent of salary up to Social Security wage base and 11 percent of any excess salary.

BENEFITS

TCRS provides three valuable benefits to its members: disability, death and service retirement benefits. Disability benefits are available to qualified TCRS members who become totally disabled before meeting the requirements for service retirement. Two types of disability retirement are available: ordinary and accidental.

To qualify for ordinary disability, a member must have a minimum of five years of TCRS service credit. The ordinary disability benefit is equal to 90 percent of what the member would receive under service retirement. If a disabled retiree has less than 20 years of service credit, the service is projected to age 60 or 20 years, whichever comes first. When service is projected, the actual and projected service combined cannot exceed 20 years. If the member's actual service credit exceeds 20 years, the benefit is based on actual service only.

There is no minimum service requirement to qualify for an accidental disability benefit. However, the disability must be the result of a job-related accident that occurs without negligence on the part of the member during the performance of duty. Prior to the onset of Social Security benefits, an accidental disability benefit is equal to 50 percent of the member's average final compensation (AFC). Once Social Security benefits begin, the accidental benefit is 33.3 percent of AFC. For members joining TCRS on or after July 1, 1997, accidental disability benefits are determined in the same manner as ordinary disability using the projection of service method. Disability benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. The

accidental benefit is adjusted if the member's combined benefits from Social Security and/or workers' compensation exceed 75 percent of his AFC.

One of several death benefits may be payable to the designated beneficiary of an active member who dies prior to retirement. The type of death benefit payable will be determined by whether or not death occurred while in service, who is named as beneficiary and the member's length of service.

A member may designate one or more persons, his estate, an institution or any combination of such as his beneficiary. However, estates, institutions and/or multiple beneficiaries are only eligible for a lump-sum refund of the member's accumulated contributions and interest unless one of the beneficiaries named is the surviving spouse. Other death benefits offered by TCRS include a 100 percent Joint and Surviving Spouse Annuity after 10 Years Service, a 100 percent Joint and Survivor Annuity for any beneficiary and a Line of Duty Benefit. Any beneficiary of a member who had 10 years of service and who is eligible for a lump-sum death benefit may elect a benefit to be paid over 10 years.

All members, with the exception of state judges, joining TCRS after 1976 enter the same membership group. The benefit formula for this group provides 1.5 percent of AFC computed over five years for each year of service credit. If a member's AFC exceeds the Social Security integration level (SSIL) applicable at retirement, the formula provides an additional 0.25 percent of the amount of the excess for each service year. These benefits are increased by five percent for state employees, teachers and employees of participating political subdivisions which have authorized the five percent benefit improvement. State judges joining TCRS after September 1, 1990 become Group IV members.

Members become eligible for regular service retirement at age 60 if vested or at any age with 30 years. Vested members are eligible for reduced early retirement benefits when they have reached age 55 or have completed 25 years of service. Members joining TCRS after June 30, 1979 attain vesting rights after five years of service; the vesting period for members who joined prior to July 1, 1979 is four years. Five-year vesting and 25-year retirement are benefits that are optional to local governments. Otherwise, vesting for local governments is 10 years of service.

SERVICES FOR ACTIVE AND RETIRED MEMBERS

SERVICES FOR ACTIVE MEMBERS

TCRS provides a number of services for active members through its various sections.

Field Services

- ❖ TCRS staff is available to conduct employee presentations on all aspects of the retirement system.
- ❖ Employer seminars are conducted biennially to educate payroll officers on legislation affecting TCRS and inform them of the employer contribution rates effective for the next two fiscal years.

Membership

- ❖ Comprehensive membership statements are provided to all members annually.
- ❖ Computer-generated membership letters and membership pamphlets are mailed to all new members.
- ❖ Membership booklets are available to members upon request.

Prior Service

- ❖ An automated calculation and eligibility system generates billings for members who wish to establish prior service.
- ❖ An installment program is available to purchase certain types of prior service.
- ❖ Prior Service may be purchased with a rollover from a tax-deferred 401(k) plan, 403(b) plan, 457 plan or an IRA.

Benefits

- ❖ Interactive benefit calculator via Internet.
- ❖ Computer-generated benefit estimates are available for those members approaching retirement age.
- ❖ Employee benefit counseling workshops are available to educate potential retirees.
- ❖ TCRS counseling staff provides personal counseling to members by telephone and in their Nashville office.
- ❖ TCRS seminars, which explain all facets of pre-retirement planning, are provided for members.

SERVICES FOR RETIRED MEMBERS

A number of services are made available to TCRS retirees.

- ❖ A toll-free telephone line.
- ❖ Retiree identification cards.
- ❖ Semiannual retiree newsletter: *The Retiree Advisor*.
- ❖ Direct deposit service.
- ❖ Continuation of medical insurance.
- ❖ Continuation of dental insurance.
- ❖ Medicare supplement coverage.
- ❖ Income tax information.
- ❖ Certification of monthly benefits.
- ❖ Certification of student discounts.
- ❖ Credit Union deductions.
- ❖ Tennessee State Employee Association deductions.
- ❖ Tennessee Retired Teachers Association deductions.

SAMPLE BENEFIT CALCULATIONS

TENNESSEE'S RETIREMENT PROGRAM, TCRS AND SOCIAL SECURITY BENEFITS
for Calendar Year 2010

Five-Year AFC*	Projected Annual Retirement Income	15 Years Service	% of AFC	20 Years Service	% of AFC	25 Years Service	% of AFC	30 Years Service	% of AFC	35 Years Service	% of AFC
\$15,000	TCRS	\$ 3,544		\$ 4,725		\$ 5,906		\$ 7,088		\$ 8,269	
	Social Security	9,348		9,348		9,348		9,348		9,348	
	Total	\$ 12,892	85.9%	\$ 14,073	93.8%	\$ 15,254	101.7%	\$ 16,436	109.6%	\$ 17,617	117.4%
\$20,000	TCRS	\$ 4,725		\$ 6,300		\$ 7,875		\$ 9,450		\$ 11,025	
	Social Security	10,860		10,860		10,860		10,860		10,860	
	Total	\$ 15,585	77.9%	\$ 17,160	85.8%	\$ 18,735	93.7%	\$ 20,310	101.6%	\$ 21,885	109.4%
\$25,000	TCRS	\$ 5,906		\$ 7,875		\$ 9,844		\$ 11,813		\$ 13,781	
	Social Security	12,384		12,384		12,384		12,384		12,384	
	Total	\$ 18,290	73.2%	\$ 20,259	81.0%	\$ 22,228	88.9%	\$ 24,197	96.8%	\$ 26,165	104.7%
\$30,000	TCRS	\$ 7,088		\$ 9,450		\$ 11,813		\$ 14,175		\$ 16,538	
	Social Security	13,908		13,908		13,908		13,908		13,908	
	Total	\$ 20,996	70.0%	\$ 23,358	77.9%	\$ 25,721	85.7%	\$ 28,083	93.6%	\$ 30,446	101.5%
\$35,000	TCRS	\$ 8,269		\$ 11,025		\$ 13,781		\$ 16,538		\$ 19,294	
	Social Security	15,432		15,432		15,432		15,432		15,432	
	Total	\$ 23,701	67.7%	\$ 26,457	75.6%	\$ 29,213	83.5%	\$ 31,970	91.3%	\$ 34,726	99.2%
\$40,000	TCRS	\$ 9,450		\$ 12,600		\$ 15,750		\$ 18,900		\$ 22,050	
	Social Security	16,956		16,956		16,956		16,956		16,956	
	Total	\$ 26,406	66.0%	\$ 29,556	73.9%	\$ 32,706	81.8%	\$ 35,856	89.6%	\$ 39,006	97.5%
\$45,000	TCRS	\$ 10,631		\$ 14,175		\$ 17,719		\$ 21,263		\$ 24,806	
	Social Security	18,480		18,480		18,480		18,480		18,480	
	Total	\$ 29,111	64.7%	\$ 32,655	72.6%	\$ 36,199	80.4%	\$ 39,743	88.3%	\$ 43,286	96.2%
\$50,000	TCRS	\$ 11,813		\$ 15,750		\$ 19,688		\$ 23,625		\$ 27,563	
	Social Security	20,004		20,004		20,004		20,004		20,004	
	Total	\$ 31,817	63.6%	\$ 35,754	71.5%	\$ 39,692	79.4%	\$ 43,629	87.3%	\$ 47,567	95.1%
\$55,000	TCRS	\$ 12,994		\$ 17,325		\$ 21,656		\$ 25,988		\$ 30,319	
	Social Security	21,072		21,072		21,072		21,072		21,072	
	Total	\$ 34,066	61.9%	\$ 38,397	69.8%	\$ 42,728	77.7%	\$ 47,060	85.6%	\$ 51,391	93.4%
\$60,000	TCRS	\$ 14,317		\$ 19,089		\$ 23,861		\$ 28,634		\$ 33,406	
	Social Security	21,792		21,792		21,792		21,792		21,792	
	Total	\$ 36,109	60.2%	\$ 40,881	68.1%	\$ 45,653	76.1%	\$ 50,426	84.0%	\$ 55,198	92.0%
\$65,000	TCRS	\$ 15,695		\$ 20,927		\$ 26,158		\$ 31,390		\$ 36,621	
	Social Security	22,500		22,500		22,500		22,500		22,500	
	Total	\$ 38,195	58.8%	\$ 43,427	66.8%	\$ 48,658	74.9%	\$ 53,890	82.9%	\$ 59,121	91.0%
\$70,000	TCRS	\$ 17,073		\$ 22,764		\$ 28,455		\$ 34,146		\$ 39,837	
	Social Security	23,160		23,160		23,160		23,160		23,160	
	Total	\$ 40,233	57.5%	\$ 45,924	65.6%	\$ 51,615	73.7%	\$ 57,306	81.9%	\$ 62,997	90.0%

* Average Final Compensation (AFC) is the average of the member's five highest consecutive years of salary.

This chart is based on a date of retirement in 2010. Social Security benefits have been calculated by Bryan, Pendleton, Swats & McAllister, actuarial consultants for the TCRS, utilizing the following assumptions:

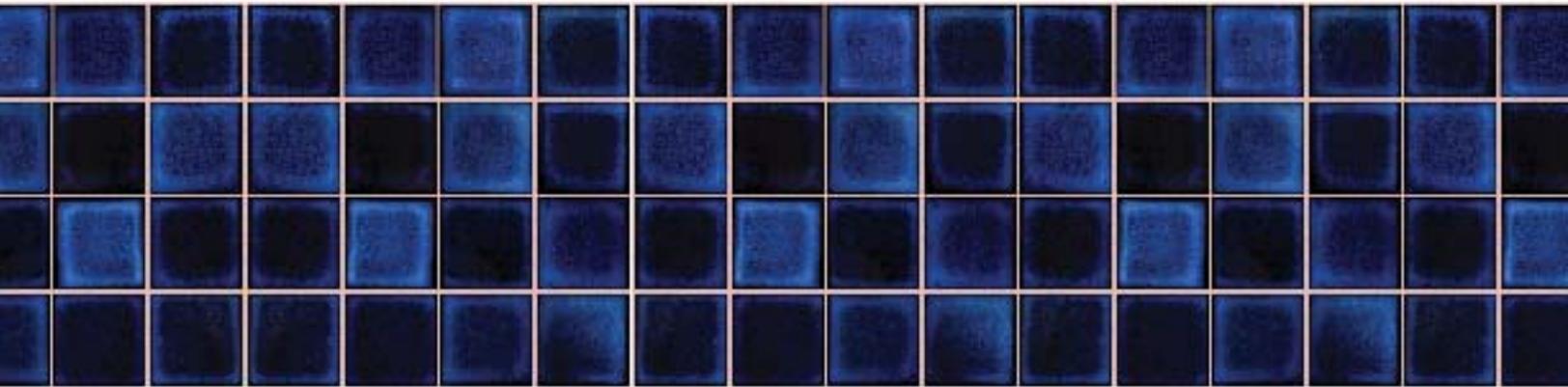
- (1) Retirement is taking place at age 65 in 2010;
- (2) The retiree has worked a full career (TCRS plus other employers, if necessary) of 35 years or more; and
- (3) Salary increases throughout the retiree's career have followed the same pattern as National Average Earnings.

The department's Internet benefits calculator allows members to receive an immediate estimate: tcrs.tn.gov

MAJOR LEGISLATIVE IMPROVEMENTS

<p>1972 Benefit formula improved from 1.12 percent of salary up to the SSIL to 1.5 percent of salary up to the SSIL.</p> <p>1973 Annual cost-of-living increase based on the CPI with a cap of 1.5 percent adopted for retirees.</p> <p>1974 Disability retirement eligibility requirement reduced from 10 years to 5 years of service.</p> <p>Maximum annual cost-of-living increase raised to 3 percent.</p> <p>Provision to increase retirees' benefits whenever the benefit formula is improved.</p> <p>Service credit authorized for unused accumulated sick leave.</p> <p>1976 Service retirement eligibility requirements reduced from age 65 or 35 years of service to age 60 or 30 years of service.</p> <p>Early retirement eligibility requirements reduced from age 60 or 30 years of service to age 55.</p> <p>1978 A bonus cost-of-living increase granted to retirees at a lump-sum cost of \$15.3 million.</p> <p>An optional retirement plan established for teachers in the Board of Regents system.</p> <p>1980 Death benefits for members dying in-service with 10 years of service improved by offering a 100 percent joint and survivor annuity of the member's accrued benefit for the spouse.</p> <p>1981 Noncontributory retirement for state employees and higher education employees adopted. Employees' contributions, up to 5 percent, were assumed by the state.</p> <p>1983 An actuarially reduced retirement benefit at any age with 25 years of service authorized.</p> <p>1984 Credit for out-of-state service for the purpose of determining retirement eligibility authorized.</p> <p>Retirement credit for armed conflict approved.</p> <p>Part-time employees permitted to participate in TCRS and members allowed to establish credit for previous part-time employment.</p> <p>1985 \$22 million ad-hoc increase granted to retirees.</p>	<p>1987 Service credit for half of peacetime military service made available.</p> <p>\$17 million ad-hoc increase granted to retirees.</p> <p>Retirement incentive for state employees.</p> <p>Section 414(h) of the IRC adopted, allowing employee contributions to be made on a tax-deferred basis.</p> <p>1990 Retirement incentive for state employees.</p> <p>1991 3.6 percent indexing of salaries for noncontributory employees extended one year. Each succeeding year up to 1997, the 3.6 percent indexing was extended. In 1997, it was extended indefinitely.</p> <p>1992 Minimum number of years required to qualify for retirement was reduced from 10 to 5 years.</p> <p>1993 Salary portability for service in different classifications authorized effective January 1, 1994.</p> <p>Benefit improvement up to 5 percent authorized.</p> <p>1997 Compounded COLA for retirees approved.</p> <p>1998 Group 2 and 3 service requirements amended to permit service retirement with 30 years of service, regardless of age.</p> <p>Group 1 and Prior Class C benefit limitations increased to 80 percent.</p> <p>Mandatory retirement established with supplemental bridge benefit for all state public safety officers.</p> <p>1999 Group 1 benefit maximum increased to 90 percent.</p> <p>2000 Group 2 benefit maximum increased to 80 percent.</p> <p>2001 Line of Duty Death Benefits adopted to guarantee a minimum \$50,000 death benefit.</p> <p>2005 Return to work statutes were reformed, including a temporary employment increase to 120 days.</p> <p>2006 Ad-hoc increase granted to members retired prior to 1989.</p> <p>2007 Public Safety Officer benefits were enhanced.</p>
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*Tennessee
Consolidated
Retirement
System*



Statistical Section

STATISTICAL INTRODUCTION**STATISTICAL SECTION OVERVIEW**

The statistical section presents additional information to provide financial statement users with added historical perspective, context, and detail to assist in using the information in the financial statements, notes to the financial statements, and required supplementary information to understand and assess the system's financial condition.

FINANCIAL TRENDS

The schedules presented on pages 74-77 show financial trends information that assists users in understanding and assessing how the system's financial position has changed over time. The financial trend schedules presented are:

- ❖ Historical Fair Value
- ❖ Analysis of Member and Employer Reserves
- ❖ Schedules of Changes in Net Assets
- ❖ Schedules of Benefit Expenses

OPERATING INFORMATION

The remaining schedules presented on pages 78-95 contain benefits, service, and employer data to help the reader understand how the System's financial report relates to the services of the system and the activities it performs. In addition, a description of political subdivision participation and a listing of participating entities have been included in this section.

HISTORICAL FAIR VALUE

HISTORICAL FAIR VALUE

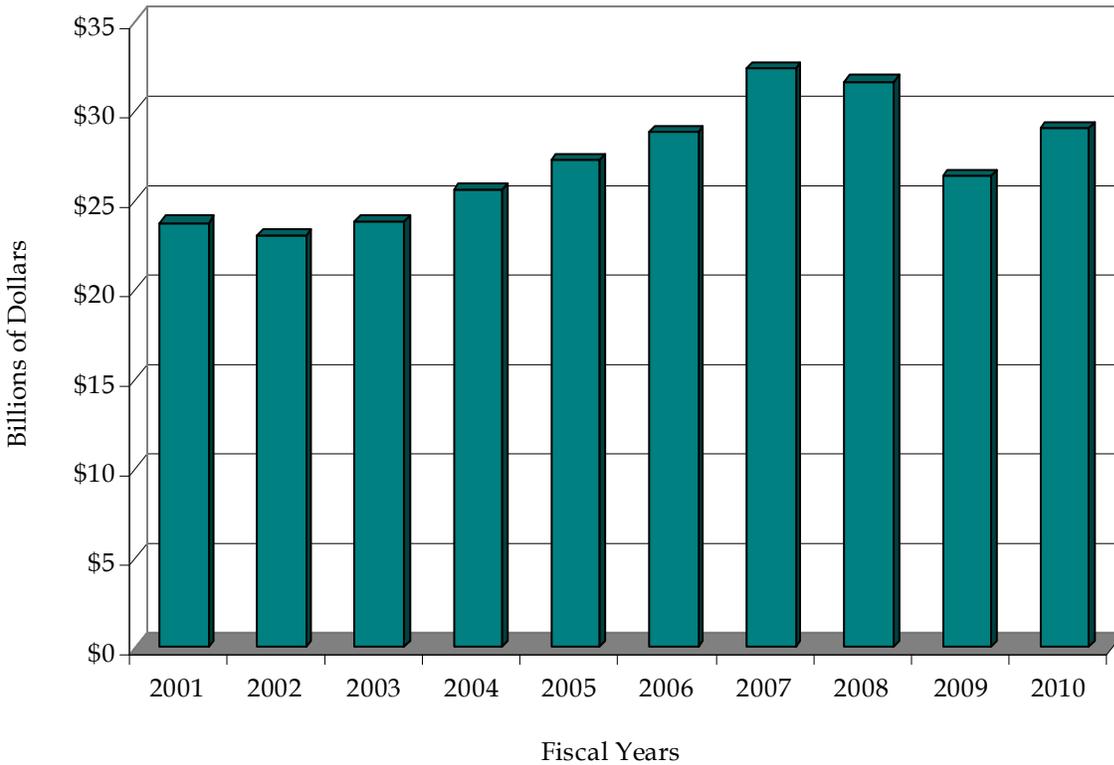
Fiscal Years 2001-2010

Expressed in Thousands

As of June 30	Fair Value	As of June 30	Fair Value
2001	\$ 23,737,926	2006	\$ 28,820,635
2002	22,982,880	2007	32,365,969
2003	23,778,484	2008	31,634,129
2004	25,586,516	2009	26,369,226
2005	27,216,262	2010	28,574,195

HISTORICAL FAIR VALUE

Fiscal Years 2001-2010



**ANALYSIS OF MEMBER AND EMPLOYER RESERVES
FOR THE YEAR ENDED JUNE 30, 2010**

MEMBER RESERVE FUND

The legislation which created the TCRS established two funds, the Member Reserve Fund and the Employer Reserve Fund, to account for the financial transactions of the pension plans. The Member Reserve Fund represents the accumulation of employee contributions plus interest.

	SETHEEPP	PSPP	Total
<i>June 30, 2009 Member Reserve Fund</i>	\$ 3,560,101,160	\$ 1,010,956,547	\$ 4,571,057,707
Member Contributions	190,634,541	64,414,131	255,048,672
Employer Provided Contributions	15,752,065	9,546,436	25,298,501
Interest	163,811,818	47,104,496	210,916,314
Refunded Account Balances	(19,370,607)	(17,052,044)	(36,422,651)
Transfers to Employer Fund of Retiring Members	<u>(284,595,713)</u>	<u>(61,532,766)</u>	<u>(346,128,479)</u>
<i>June 30, 2010 Member Reserve Fund</i>	<u>\$ 3,626,333,264</u>	<u>\$ 1,053,436,800</u>	<u>\$ 4,679,770,064</u>

EMPLOYER RESERVE FUND

The Employer Reserve Fund represents the accumulation of employer contributions, investment income and transfers from the Member Reserve Fund for retirees. Benefit payments and interest credited to members' accounts are reductions to the Employer Reserve Fund.

	SETHEEPP	PSPP	Total
<i>June 30, 2009 Employer Reserve Fund</i>	\$ 18,388,632,212	\$ 3,409,535,796	\$ 21,798,168,008
Employer Contributions	578,403,914	258,323,701	836,727,615
Investment Income	2,232,404,352	459,941,567	2,692,345,919
Transfers from Retiring Members' Account	284,595,713	61,532,766	346,128,479
Employer Provided Contributions	(15,752,065)	(9,546,436)	(25,298,501)
Interest Credited to Members' Account	(163,811,818)	(47,104,496)	(210,916,314)
Lump-Sum Death Benefits	(4,693,783)	(2,420,225)	(7,114,008)
Retirement and Survivors Annuities	(1,312,509,121)	(215,564,229)	(1,528,073,350)
Administrative Expenses	<u>(3,924,280)</u>	<u>(3,618,542)</u>	<u>(7,542,822)</u>
<i>June 30, 2010 Employer Reserve Fund</i>	<u>\$ 19,983,345,124</u>	<u>\$ 3,911,079,902</u>	<u>\$ 23,894,425,026</u>

SCHEDULES OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULES OF CHANGES IN NET ASSETS

Expressed in Thousands

Year Ending	Additions			Deductions			Total Change in Net Assets
	Member Contributions	Employer Contributions	Investment Income	Benefit Payments	Administrative Expenses	Refunds	
SETHEPP							
6/30/2001	\$ 135,154	\$ 232,149	\$ (284,167)	\$ 659,134	\$ 1,795	\$ 16,484	\$ (594,277)
6/30/2002	142,126	243,498	(383,371)	711,537	2,714	12,689	(724,687)
6/30/2003	148,493	264,320	959,110	764,837	2,631	14,250	590,205
6/30/2004	154,334	271,298	1,870,972	826,938	2,935	15,305	1,451,426
6/30/2005	160,686	448,154	1,579,232	891,259	3,008	15,329	1,278,476
6/30/2006	166,984	474,879	1,594,214	972,680	3,336	17,751	1,242,310
6/30/2007	175,743	562,729	3,202,706	1,062,764	3,385	19,231	2,855,798
6/30/2008	181,236	593,412	(361,408)	1,148,496	3,711	19,113	(758,080)
6/30/2009	185,729	583,985	(4,059,222)	1,254,824	3,616	16,503	(4,564,451)
6/30/2010	190,635	578,403	2,232,405	1,317,203	3,924	19,371	1,660,945
PSPP							
6/30/2001	\$ 45,433	\$ 103,681	\$ (43,623)	\$ 97,250	\$ 1,683	\$ 12,034	\$ (5,476)
6/30/2002	47,139	103,374	(60,412)	106,554	2,290	11,616	(30,359)
6/30/2003	49,218	134,014	153,368	116,395	2,425	12,381	205,399
6/30/2004	50,650	139,808	310,881	127,513	2,599	14,621	356,606
6/30/2005	54,921	181,096	271,135	137,657	2,738	15,487	351,270
6/30/2006	59,327	191,000	283,084	151,511	2,877	16,960	362,063
6/30/2007	57,003	231,699	588,698	167,667	3,084	17,113	689,536
6/30/2008	64,617	244,847	(68,651)	184,219	3,491	26,863	26,240
6/30/2009	67,830	252,926	(799,264)	202,839	3,586	15,519	(700,452)
6/30/2010	64,414	258,324	459,941	217,984	3,619	17,052	544,024

SCHEDULES OF BENEFIT EXPENSES

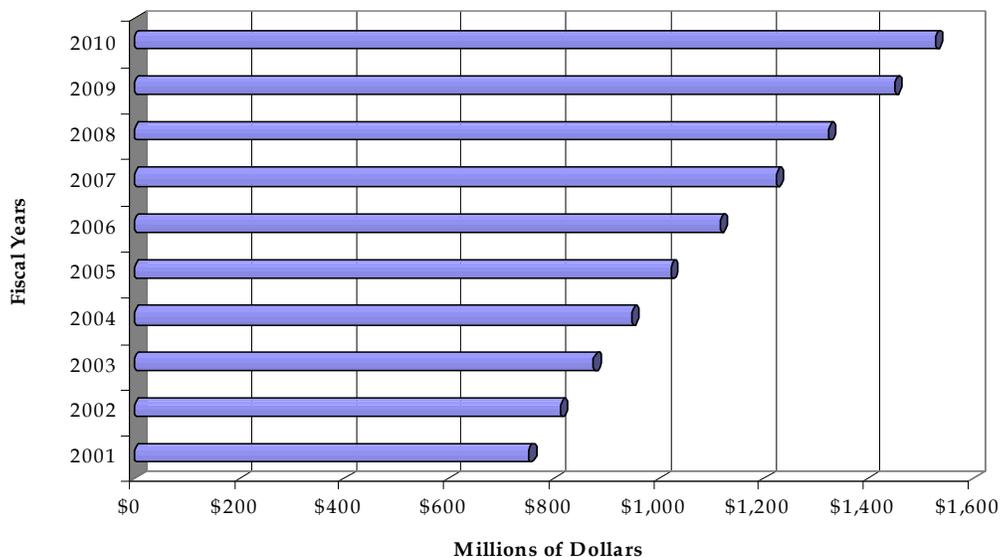
SCHEDULES OF BENEFIT EXPENSES

Expressed in Thousands

Year Ending	Base Annuity	Disability Annuity	Survivor Annuity	Cost of Living	Lump-Sum Death Benefits	Total Benefits	Refunds	Total
SETHEEPP								
6/30/2001	\$ 491,204	\$ 16,094	\$ 31,224	\$ 116,892	\$ 3,720	\$ 659,134	\$ 16,484	\$ 675,618
6/30/2002	528,471	17,405	33,518	129,918	2,225	711,537	12,689	724,226
6/30/2003	571,703	18,809	36,818	134,455	3,052	764,837	14,250	779,087
6/30/2004	617,659	20,341	40,022	145,767	3,149	826,938	15,305	842,243
6/30/2005	668,340	21,229	43,437	154,522	3,731	891,259	15,329	906,588
6/30/2006	726,109	22,225	46,495	173,624	4,227	972,680	17,751	990,431
6/30/2007	789,603	22,971	50,032	196,439	3,719	1,062,764	19,231	1,081,995
6/30/2008	851,426	24,111	53,840	215,810	3,309	1,148,496	19,113	1,167,609
6/30/2009	927,977	25,351	57,141	240,293	4,062	1,254,824	16,503	1,271,327
6/30/2010	994,439	26,041	60,945	231,084	4,694	1,317,203	19,371	1,336,574
PSPP								
6/30/2001	\$ 75,517	\$ 2,474	\$ 4,800	\$ 13,477	\$ 982	\$ 97,250	\$ 12,034	\$ 109,284
6/30/2002	82,084	2,704	5,206	15,417	1,143	106,554	11,616	118,170
6/30/2003	90,372	2,973	5,820	16,236	994	116,395	12,381	128,776
6/30/2004	98,680	3,250	6,394	17,860	1,329	127,513	14,621	142,134
6/30/2005	106,943	3,397	6,951	19,186	1,180	137,657	15,487	153,144
6/30/2006	117,074	3,584	7,497	21,915	1,441	151,511	16,960	168,471
6/30/2007	128,937	3,751	8,170	25,025	1,784	167,667	17,113	184,780
6/30/2008	141,867	4,017	8,971	27,765	1,599	184,219	26,863	211,082
6/30/2009	155,776	4,256	9,592	31,553	1,662	202,839	15,519	218,358
6/30/2010	170,275	4,459	10,435	30,395	2,420	217,984	17,052	235,036

ANNUAL BENEFIT PAYMENTS

Fiscal Years 2001-2010



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Service Credit

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
0-4	12,249	19,632	5,304	28,964	66,149
5-9	10,288	16,209	3,302	18,592	48,391
10-14	6,466	13,198	2,217	13,670	35,551
15-19	4,225	8,860	1,812	7,736	22,633
20-24	4,254	5,975	1,612	5,459	17,300
25-29	3,460	4,519	1,241	2,660	11,880
30-34	2,138	3,396	857	1,562	7,953
35-39	982	1,879	450	507	3,818
40-44	274	321	133	109	837
Over 44	86	54	29	30	199
Total	44,422	74,043	16,957	79,289	214,711

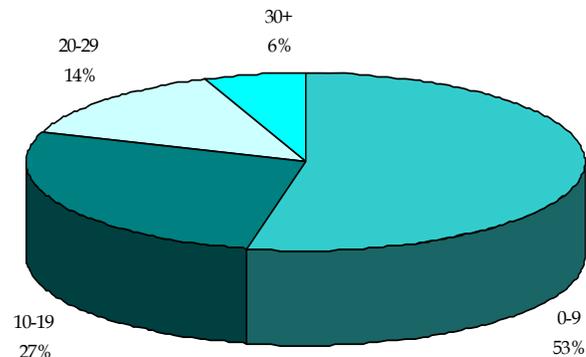
SCHEDULE OF ACTIVE MEMBERS

by Enrollment Date

Date of Membership	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1940s	6	14	1	18	39
1950s	31	14	5	3	53
1960s	278	370	99	45	792
1970s	2,971	5,485	1,326	1,647	11,429
1980s	8,789	10,796	3,181	8,000	30,766
1990s	10,753	21,647	3,950	21,774	58,124
2000s	20,415	35,293	7,991	45,381	109,080
2010s	1,179	424	404	2,421	4,428
Total	44,422	74,043	16,957	79,289	214,711

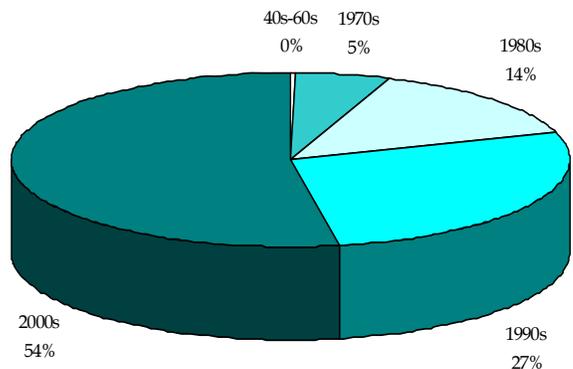
PERCENTAGE OF ACTIVE MEMBERS

by Service Credit



PERCENTAGE OF ACTIVE MEMBERS

by Enrollment Date



SCHEDULES OF ACTIVE MEMBERS

SCHEDULE OF ACTIVE MEMBERS

by Current Age

Current Age	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	23	4	3	27	57
20-29	3,519	9,547	1,186	6,496	20,748
30-39	8,745	20,902	2,705	15,272	47,624
40-49	11,086	18,081	4,263	22,797	56,227
50-54	7,125	9,271	2,925	12,110	31,431
55-59	6,982	9,346	2,835	10,699	29,862
60-64	4,811	5,706	1,966	7,402	19,885
65-69	1,503	982	716	2,847	6,048
Over 69	628	204	358	1,639	2,829
Total	44,422	74,043	16,957	79,289	214,711

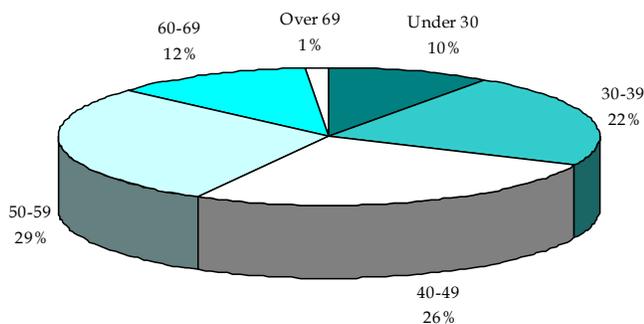
SCHEDULE OF ACTIVE MEMBERS

by Age at Enrollment

Age at Enrollment	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than 20	1,247	128	272	1,222	2,869
20-24	8,669	24,582	2,640	10,146	46,037
25-29	9,517	19,180	3,236	11,795	43,728
30-34	6,665	9,988	2,735	12,338	31,726
35-39	5,704	8,061	2,431	13,158	29,354
40-44	4,548	5,718	1,997	11,179	23,442
45-49	3,504	3,405	1,603	8,122	16,634
50-54	2,478	1,898	1,156	5,542	11,074
55-59	1,510	851	619	3,487	6,467
60-64	445	194	211	1,561	2,411
65-69	106	30	42	548	726
Over 70	29	8	15	191	243
Total	44,422	74,043	16,957	79,289	214,711

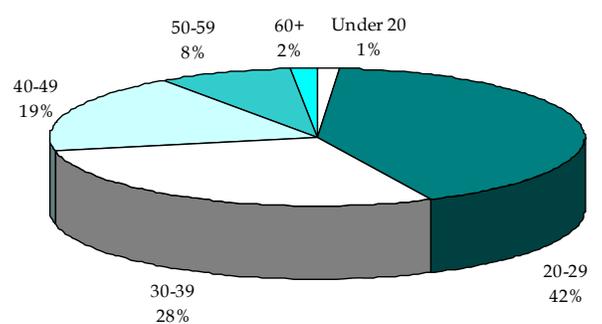
PERCENTAGE OF ACTIVE MEMBERS

by Current Age



PERCENTAGE OF ACTIVE MEMBERS

by Age at Enrollment



SCHEDULES OF ACTIVE MEMBERS

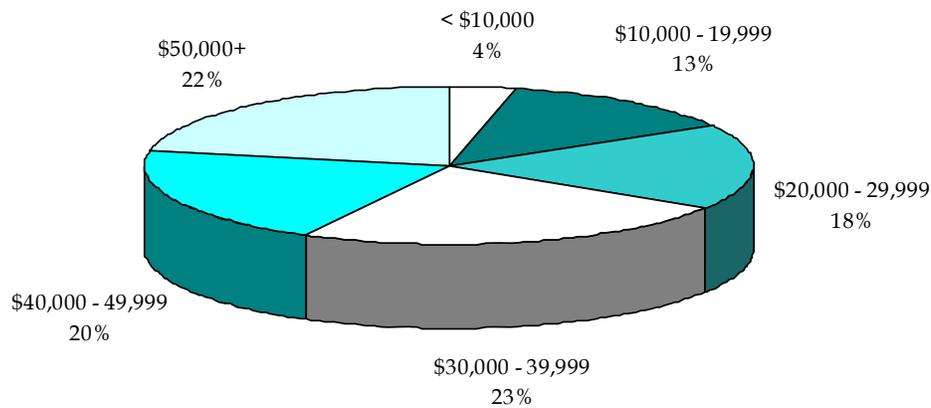
SCHEDULE OF ACTIVE MEMBERS

by Salary

Annual Salary	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivisions Employees	
Less than \$10,000	1,433	188	527	5,584	7,732
\$10,000 - 19,999	2,555	776	1,822	22,674	27,827
\$20,000 - 29,999	11,659	1,538	4,771	19,671	37,639
\$30,000 - 39,999	12,160	18,378	3,851	16,253	50,642
\$40,000 - 49,999	7,210	26,453	2,318	8,006	43,987
\$50,000+	9,405	26,710	3,668	7,101	46,884
Total	44,422	74,043	16,957	79,289	214,711

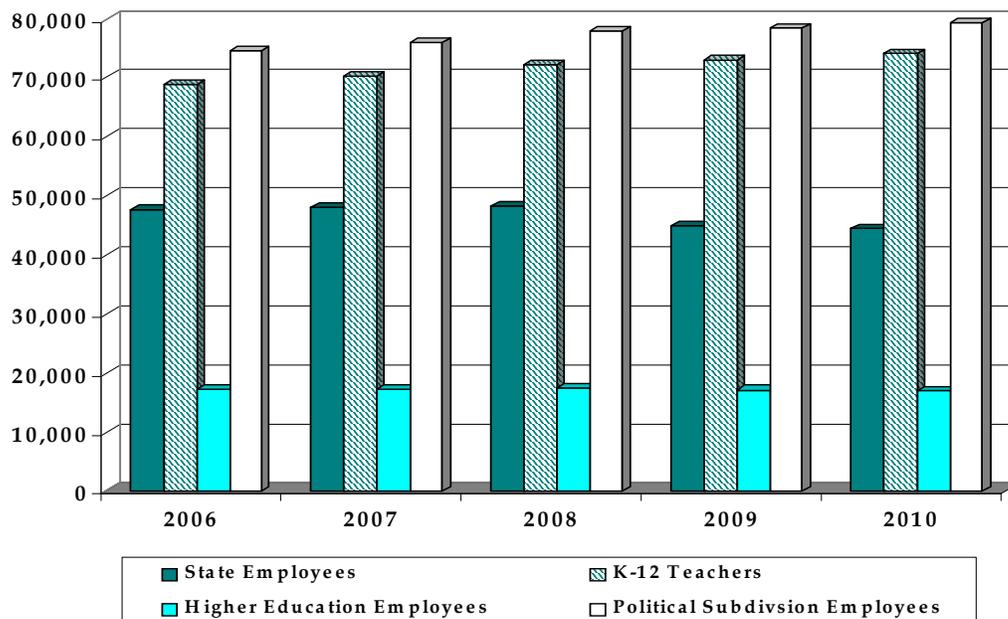
PERCENTAGE OF ACTIVE MEMBERS

by Salary



ACTIVE MEMBERS

Fiscal Years 2006-2010



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Type of Benefit Plan

Benefit Plan	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	Total
Regular	13,635	22,804	7,155	20,196	63,790
Option I	3,953	2,959	2,487	4,216	13,615
Option II	1,260	1,171	801	1,111	4,343
Option III	3,445	3,531	1,659	3,260	11,895
Option IV	2,417	3,264	1,283	1,685	8,649
S.S. Leveling	2,065	4,130	561	1,594	8,350
Subtotal	26,775	37,859	13,946	32,062	110,642
Survivors	616	258	215	402	1,491
Total	27,391	38,117	14,161	32,464	112,133

- *Regular Maximum Plan - No Survivor Benefits
- *Option I 100% Joint and Survivor Annuity
- *Option II 50% Joint and Survivor Annuity
- *Option III 100% Joint and Survivor Annuity with Pop-up Feature
- *Option IV 50% Joint and Survivor Annuity with Pop-up Feature
- *S.S. Leveling Benefit Level Coordinated with Social Security

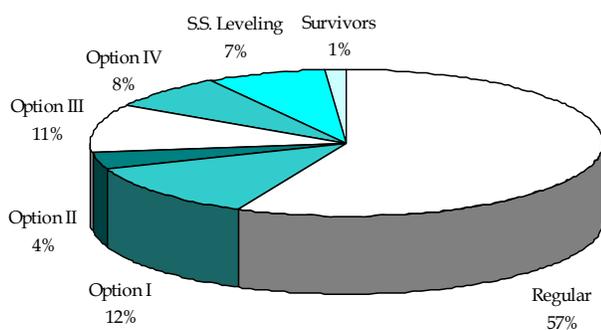
SCHEDULE OF RETIRED MEMBERS

by Type of Retirement

Type of Retirement	SETHEEPP			PSPP	
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	Total
Retirees:					
Service	21,226	31,860	11,046	25,015	89,147
Early	3,638	4,869	2,166	4,766	15,439
Disability	1,911	1,130	734	2,281	6,056
Total Retirees	26,775	37,859	13,946	32,062	110,642
Survivors	616	258	215	402	1,491
Total	27,391	38,117	14,161	32,464	112,133

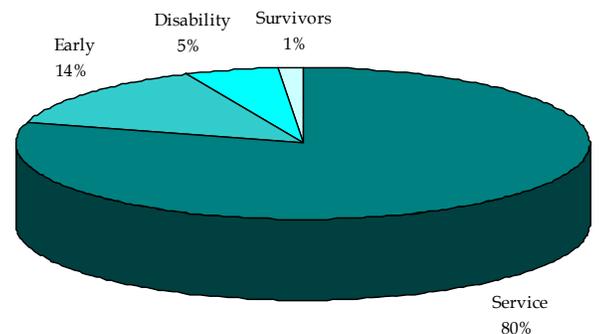
PERCENTAGE OF RETIRED MEMBERS

by Type of Benefit Plan



PERCENTAGE OF RETIRED MEMBERS

by Type of Retirement



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Average Monthly Benefit

STATE EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0-500	8,560	5,901	1,692	740	227	4,523	1,427	341	1,063	582	397	227
501-1,000	6,788	4,572	1,116	940	160	3,714	983	268	796	514	353	160
1,001-1,500	4,502	3,700	525	186	91	2,295	542	165	553	391	465	91
1,501-2,000	3,168	2,866	199	36	67	1,430	390	117	463	341	360	67
2,001-2,500	1,948	1,855	63	5	25	804	226	94	258	267	274	25
2,501-3,000	1,042	1,001	25	2	14	405	154	65	136	141	127	14
3,001-3,500	548	522	12	0	14	203	87	45	88	65	46	14
3,501-4,000	328	319	4	0	5	106	50	35	52	58	22	5
over 4,000	507	490	2	2	13	155	94	130	36	58	21	13
Totals	27,391	21,226	3,638	1,911	616	13,635	3,953	1,260	3,445	2,417	2,065	616

TEACHERS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0-500	4,510	3,360	971	159	20	2,877	475	174	474	292	198	20
501-1,000	5,797	3,691	1,590	467	49	3,588	617	186	565	452	340	49
1,001-1,500	6,515	4,838	1,277	346	54	3,726	541	188	682	559	765	54
1,501-2,000	7,624	6,788	644	126	66	4,269	534	208	837	812	898	66
2,001-2,500	6,637	6,291	288	28	30	4,074	348	170	539	582	894	30
2,501-3,000	3,644	3,553	63	4	24	2,173	233	115	233	298	568	24
3,001-3,500	1,797	1,762	26	0	9	1,081	106	59	125	132	285	9
3,501-4,000	846	834	8	0	4	515	53	39	49	80	106	4
over 4,000	747	743	2	0	2	501	52	32	27	57	76	2
Totals	38,117	31,860	4,869	1,130	258	22,804	2,959	1,171	3,531	3,264	4,130	258

HIGHER EDUCATION EMPLOYEES												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0-500	4,976	3,562	1,027	322	65	2,846	805	240	532	324	164	65
501-1,000	3,409	2,395	644	325	45	1,861	563	147	380	300	113	45
1,001-1,500	1,991	1,610	284	68	29	976	337	130	229	199	91	29
1,501-2,000	1,192	1,026	124	16	26	473	224	80	169	143	77	26
2,001-2,500	803	739	47	1	16	302	174	48	113	99	51	16
2,501-3,000	575	540	22	2	11	215	109	42	87	78	33	11
3,001-3,500	423	404	11	0	8	165	95	33	62	43	17	8
3,501-4,000	266	254	4	0	8	86	61	25	43	37	6	8
over 4,000	526	516	3	0	7	231	119	56	44	60	9	7
Totals	14,161	11,046	2,166	734	215	7,155	2,487	801	1,659	1,283	561	215

POLITICAL SUBDIVISIONS												
Average Monthly Benefit	Number of Retirees	Type of Retirement				Option Selected						
		Service	Early	Disability	Survivors	Regular	I	II	III	IV	SS Leveling	Survivors
0-500	19,607	14,573	3,398	1,435	201	13,020	2,532	550	1,820	850	634	201
501-1,000	7,339	5,582	936	716	105	4,723	869	242	714	356	330	105
1,001-1,500	2,706	2,289	256	109	52	1,382	383	127	345	195	222	52
1,501-2,000	1,339	1,197	103	14	25	545	203	76	205	113	172	25
2,001-2,500	688	635	40	5	8	246	104	42	91	77	120	8
2,501-3,000	370	341	23	2	4	124	53	35	47	41	66	4
3,001-3,500	181	173	6	0	2	56	25	21	24	27	26	2
3,501-4,000	102	97	4	0	1	48	17	7	3	11	15	1
over 4,000	132	128	0	0	4	52	30	11	11	15	9	4
Totals	32,464	25,015	4,766	2,281	402	20,196	4,216	1,111	3,260	1,685	1,594	402

SCHEDULES OF RETIRED MEMBERS

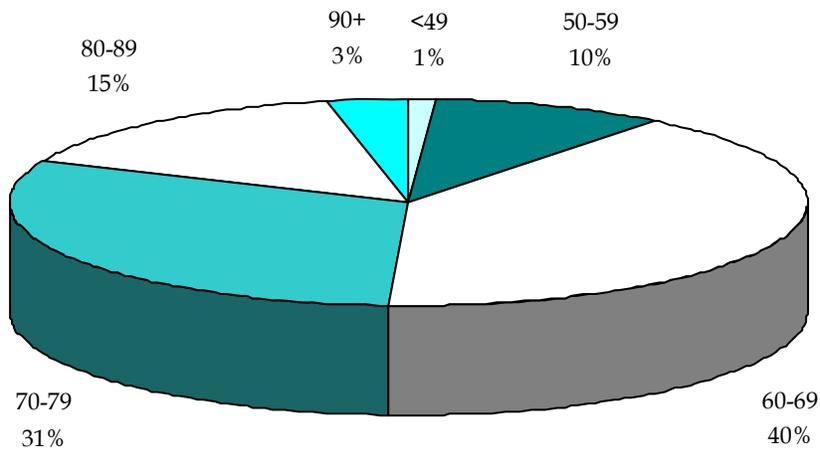
SCHEDULE OF RETIRED MEMBERS

by Current Age

Current Age	SETHEPP			PSP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 40	121	77	25	98	321
40-44	108	44	35	76	263
45-49	216	103	77	192	588
50-54	692	470	257	587	2,006
55-59	2,458	3,320	857	2,129	8,764
60-64	5,230	8,815	2,281	5,592	21,918
65-69	5,517	7,966	2,887	6,891	23,261
70-74	4,571	5,779	2,676	6,222	19,248
75-79	3,559	4,449	2,103	4,963	15,074
80-84	2,630	3,499	1,605	3,048	10,782
85-89	1,534	1,982	920	1,762	6,198
90-94	608	1,078	363	719	2,768
95-99	135	458	66	165	824
Over 99	12	77	9	20	118
Total	<u>27,391</u>	<u>38,117</u>	<u>14,161</u>	<u>32,464</u>	<u>112,133</u>

PERCENTAGE OF TOTAL RETIRED MEMBERS

by Current Age



SCHEDULES OF RETIRED MEMBERS

SCHEDULE OF RETIRED MEMBERS

by Date of Retirement

Date of Retirement	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
1950s	0	5	0	2	7
1960s	12	48	3	2	65
1970s	516	1,163	205	502	2,386
1980s	2,905	4,888	1,578	3,152	12,523
1990s	8,339	10,676	4,652	9,086	32,753
2000s	14,811	19,859	7,405	18,586	60,661
2010s	808	1,478	318	1,134	3,738
Total	27,391	38,117	14,161	32,464	112,133

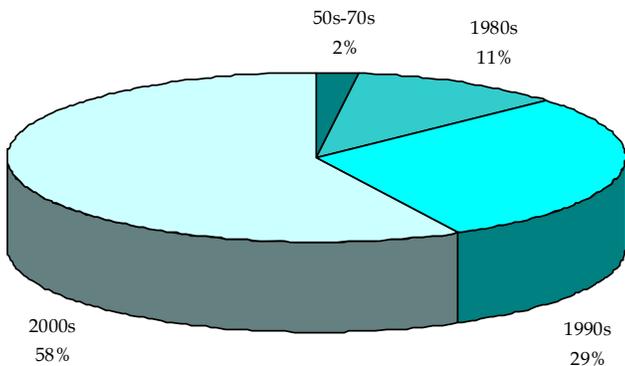
SCHEDULE OF RETIRED MEMBERS

Based on Service Credit at Retirement

Years of Service	SETHEEPP			PSPP	Total
	State Employees	Teachers	Higher Education Employees	Political Subdivision Employees	
Under 10	5,776	2,929	2,773	7,415	18,893
10-14	3,491	2,339	1,969	6,102	13,901
15-19	3,056	2,743	1,749	5,231	12,779
20-24	3,361	4,040	1,726	4,679	13,806
25-29	2,887	5,154	1,596	3,539	13,176
30-34	5,663	13,418	2,643	3,910	25,634
35-39	2,074	5,352	1,100	1,169	9,695
40-44	851	1,848	469	353	3,521
Over 44	232	294	136	66	728
Total	27,391	38,117	14,161	32,464	112,133

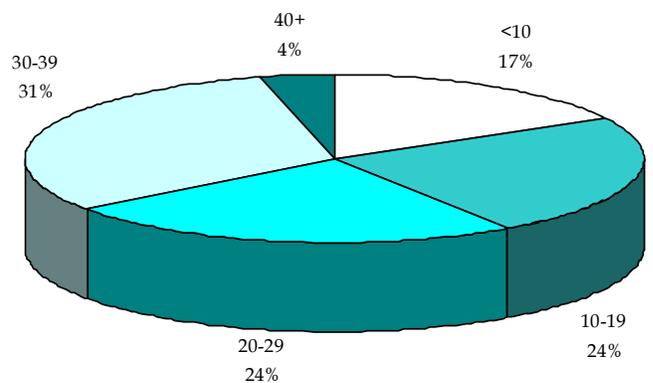
PERCENTAGE OF RETIRED MEMBERS

by Date of Retirement



PERCENTAGE OF RETIRED MEMBERS

by Service Credit at Retirement



RETIRED MEMBERS BY GEOGRAPHICAL DISTRIBUTION

UNITED STATES

Alabama	608	Maine	23
Alaska	20	Maryland	74
Arizona	138	Massachusetts	22
Arkansas	383	Michigan	93
California	176	Minnesota	19
Colorado	85	Mississippi	1,078
Connecticut	11	Missouri	157
Delaware	11	Montana	12
District of Columbia	11	Nebraska	9
Florida	1,111	Nevada	36
Georgia	1,020	New Hampshire	17
Hawaii	8	New Jersey	20
Idaho	32	New Mexico	43
Illinois	143	New York	52
Indiana	109	North Carolina	523
Iowa	14	North Dakota	3
Kansas	34	Ohio	122
Kentucky	583	Oklahoma	64
Louisiana	70	Oregon	45

Pennsylvania	71
Rhode Island	4
South Carolina	245
South Dakota	18
Tennessee	103,723
Texas	422
Utah	18
Vermont	9
Virginia	485
Washington	57
West Virginia	32
Wisconsin	34
Wyoming	8
Total U.S.	<u>112,105</u>

INTERNATIONAL COUNTRIES

Canada	6
England	1
France	2
Germany	1
Greece	1
Indonesia	1
Ireland	1
Italy	1
Japan	1
Poland	1
Romania	1
Kenya	1
Spain	1
Switzerland	1
Total Foreign Countries	<u>20</u>
US Virgin Islands	1
Overseas Military Bases	7
Total U.S.	<u>112,105</u>
Total U.S. & Foreign	<u>112,133</u>

TENNESSEE COUNTIES

Anderson	1,441	Fentress	344
Bedford	634	Franklin	779
Benton	320	Gibson	1,076
Bledsoe	351	Giles	464
Blount	2,599	Grainger	325
Bradley	1,471	Greene	1,896
Campbell	777	Grundy	279
Cannon	301	Hamblen	1,179
Carroll	567	Hamilton	5,224
Carter	1,535	Hancock	94
Cheatem	708	Hardeman	867
Chester	394	Hardin	607
Claiborne	681	Hawkins	926
Clay	126	Haywood	528
Cocke	630	Henderson	367
Coffee	864	Henry	786
Crockett	278	Hickman	516
Cumberland	945	Houston	108
Davidson	8,014	Humphreys	404
Decatur	246	Jackson	230
Dekalb	302	Jefferson	895
Dickson	784	Johnson	403
Dyer	546	Knox	6,626
Fayette	908	Lake	232

Lauderdale	683
Lawrence	787
Lewis	261
Lincoln	616
Loudon	752
McMinn	818
McNairy	459
Macon	243
Madison	2,400
Marion	442
Marshall	479
Maury	981
Meigs	168
Monroe	669
Montgomery	2,370
Moore	118
Morgan	606
Obion	784
Overton	478
Perry	218
Pickett	135
Polk	233
Putnam	1,978
Rhea	496

Roane	1,366
Robertson	971
Rutherford	3,123
Scott	471
Sequatchie	301
Sevier	1,034
Shelby	11,270
Smith	354
Stewart	199
Sullivan	3,201
Sumner	2,396
Tipton	764
Trousdale	164
Unicoi	383
Union	287
VanBuren	213
Warren	754
Washington	2,860
Wayne	344
Weakley	1,007
White	540
Williamson	2,113
Wilson	1,857
Total	<u>103,724</u>

AVERAGE BENEFIT PAYMENTS SCHEDULE

AVERAGE BENEFIT PAYMENT SCHEDULE

Fiscal Year of Retirement

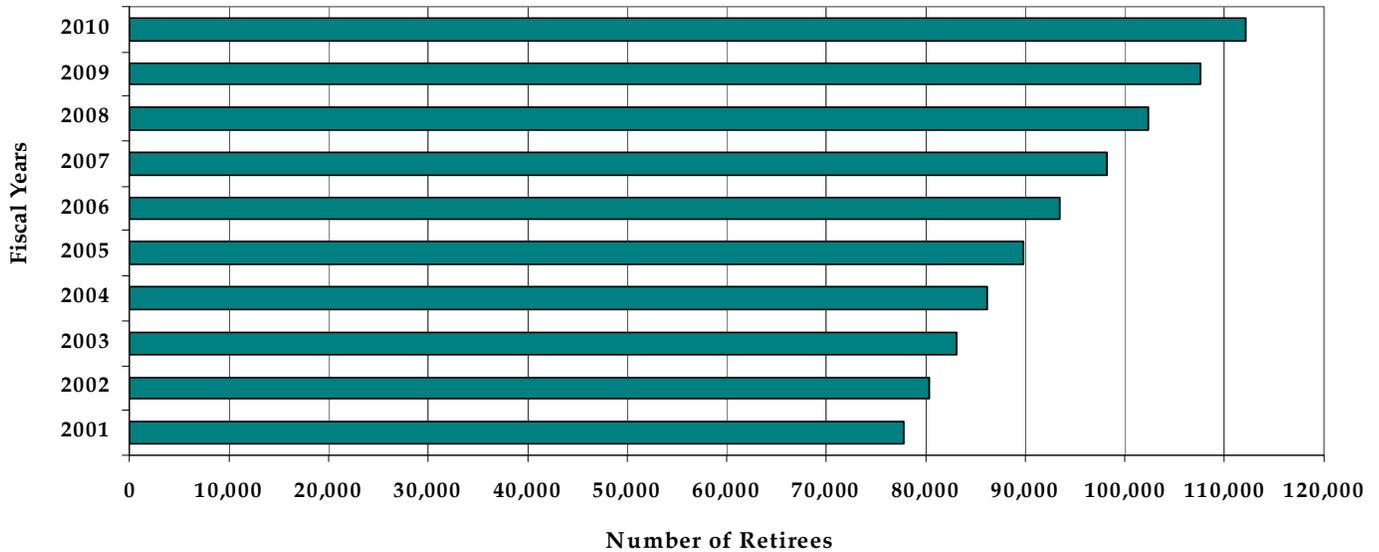
		Years of Service Credit				
		10 - 14	15 - 19	20 - 24	25 - 29	30 or more
2001	Average Monthly Benefit	\$ 421	\$ 722	\$ 1,035	\$ 1,420	\$ 2,064
	Number of Retirees	375	323	376	391	1,440
	Average Final Salary	\$ 25,291	\$ 31,157	\$ 33,609	\$ 37,869	\$ 44,220
2002	Average Monthly Benefit	\$ 442	\$ 693	\$ 976	\$ 1,417	\$ 2,092
	Number of Retirees	347	331	346	370	1,537
	Average Final Salary	\$ 25,923	\$ 29,913	\$ 31,628	\$ 38,091	\$ 45,015
2003	Average Monthly Benefit	\$ 491	\$ 713	\$ 962	\$ 1,383	\$ 2,096
	Number of Retirees	363	352	332	371	1,463
	Average Final Salary	\$ 29,112	\$ 29,942	\$ 32,140	\$ 37,253	\$ 45,026
2004	Average Monthly Benefit	\$ 406	\$ 721	\$ 1,080	\$ 1,458	\$ 2,167
	Number of Retirees	387	344	358	390	1,754
	Average Final Salary	\$ 30,591	\$ 31,239	\$ 35,619	\$ 39,432	\$ 46,718
2005	Average Monthly Benefit	\$ 501	\$ 724	\$ 1,053	\$ 1,527	\$ 2,254
	Number of Retirees	350	419	390	406	1,775
	Average Final Salary	\$ 30,448	\$ 30,929	\$ 35,028	\$ 41,288	\$ 47,980
2006	Average Monthly Benefit	\$ 533	\$ 802	\$ 1,135	\$ 1,565	\$ 2,324
	Number of Retirees	388	364	445	376	1,859
	Average Final Salary	\$ 32,442	\$ 33,917	\$ 38,127	\$ 42,260	\$ 49,423
2007	Average Monthly Benefit	\$ 570	\$ 800	\$ 1,190	\$ 1,688	\$ 2,473
	Number of Retirees	590	426	503	476	1,975
	Average Final Salary	\$ 33,818	\$ 33,699	\$ 39,285	\$ 45,064	\$ 51,802
2008	Average Monthly Benefit	\$ 548	\$ 873	\$ 1,240	\$ 1,561	\$ 2,391
	Number of Retirees	503	425	484	404	1,939
	Average Final Salary	\$33,644	\$37,665	\$41,437	\$43,798	\$51,189
2009	Average Monthly Benefit	\$ 549	\$ 871	\$ 1,199	\$ 1,632	\$ 2,438
	Number of Retirees	605	538	651	541	2,457
	Average Final Salary	\$33,256	\$37,825	\$39,991	\$45,030	\$51,374
2010	Average Monthly Benefit	\$ 597	\$ 940	\$ 1,251	\$ 1,652	\$ 2,585
	Number of Retirees	607	487	569	564	2,105
	Average Final Salary	\$36,313	\$40,421	\$41,780	\$45,672	\$53,910

Note: This schedule represents the average monthly benefits under the maximum plan of members retiring with an unreduced service retirement benefit. It excludes members retiring with a reduced early retirement benefit or under disability.

**RETIRED MEMBERS ON PAYROLL
AND PRIOR SERVICE ESTABLISHED**

NUMBER OF RETIREES ON PAYROLL

Fiscal Years 2001-2010



PRIOR SERVICE ESTABLISHED

for the Year Ended June 30, 2010

Type of Service	Members	Years of Service	Payments
State:			
Backpayment	130	114	\$ 716,464
Military	118	241	0
Redeposit	55	224	463,076
Total	303	579	\$ 1,179,540
Teachers:			
Backpayment	70	54	\$ 713,995
Military	41	81	765
Redeposit	88	401	1,073,863
Total	199	536	\$ 1,788,622
Higher Education:			
Backpayment	155	162	\$ 189,589
Military	31	61	0
Redeposit	14	34	61,287
Total	200	257	\$ 250,876
Political Subdivisions:			
Backpayment	804	1,623	\$ 580,362
Military	112	224	12,508
Redeposit	35	160	254,275
Total	951	2,007	\$ 847,145
Total by Category			
Backpayment	1,159	1,953	\$ 2,200,409
Military	302	607	13,273
Redeposit	192	819	1,852,501
Total	1,653	3,379	\$ 4,066,184

TREASURY RETIREMENT INSTALLMENT PLAN

The Treasury Retirement Installment Plan, known as TRIP, was established in 1996 to be an alternative payment method for members who have prior service to be established. Previously, prior service payments were required to be made in a lump sum payment. TRIP has allowed these members to establish their prior service by making monthly installment payments in the form of Automated Clearing House (ACH) withdrawals from a designated bank account. Service is credited to the member's account once the balance has been paid off.

Examples of service types which are eligible to be included on TRIP are previously withdrawn service, peacetime military service, educational leave and enrollment service for new participating employers. When a member is billed for their prior service, a statement is generated showing a lump sum payment. In addition, TRIP information is given with regard to financing over 6 to 60 months. The member may elect to finance the entire amount or elect to make a down payment and finance the balance.

Annual statements are also generated as of the fiscal year ending June 30. Statements reflect the principal and interest payments made and remaining balance. The member may choose at any time to pay off the remaining balance.

TREASURY RETIREMENT INSTALLMENT PLAN
Payments Received for the Year Ended June 30, 2010

Type of Service	Members	Total Years of Service	Payments (Net of Refunds)
State:			
Backpayment	5	15	\$ 24,514
Military	0	0	0
Redeposit	40	208	172,180
Total	45	223	\$ 196,694
Teachers:			
Backpayment	14	21	\$ 26,292
Military	0	0	0
Redeposit	61	269	236,382
Total	75	290	\$ 262,674
Higher Education:			
Backpayment	4	8	\$ 10,684
Military	0	0	0
Redeposit	7	21	12,163
Total	11	29	\$ 22,847
Political Subdivisions:			
Backpayment	31	124	\$ 72,731
Military	0	0	0
Redeposit	37	212	116,972
Total	68	336	\$ 189,703
Totals by Category:			
Backpayment	54	168	\$ 134,221
Military	0	0	0
Redeposit	145	709	537,697
Total	199	877	\$ 671,918

REFUND ACTIVITY AND POLITICAL SUBDIVISION PARTICIPATION

REFUND ACTIVITY

For the Year Ended June 30	Number of Refunds Processed	Amount Refunded
2001	4,771	28,517,803
2002	4,259	24,304,536
2003	4,540	26,631,386
2004	4,688	29,925,762
2005	4,724	30,815,700
2006	5,916	34,710,966
2007	4,830	36,343,972
2008	6,569	45,975,984
2009	3,896	32,021,785
2010	5,154	36,422,651

The TCRS became noncontributory July 1, 1981 for state employees, higher education employees and certain political subdivisions, resulting in fewer refunds for members withdrawing from the system.

POLITICAL SUBDIVISION PARTICIPATION

Schedule by Category

Year Ended June 30	Number of Cities	Number of Counties	Miscellaneous Political Subdivisions	Total
2001	156	87	161	404
2002	158	87	166	411
2003	160	88	170	418
2004	163	88	179	430
2005	169	88	187	444
2006	173	88	196	457
2007	177	88	202	467
2008	177	89	207	473
2009	177	89	216	482
2010	177	89	220	486

HISTORICAL EMPLOYER CONTRIBUTION RATES

HISTORICAL EMPLOYER CONTRIBUTION RATES

Expressed as a Percentage of Salary

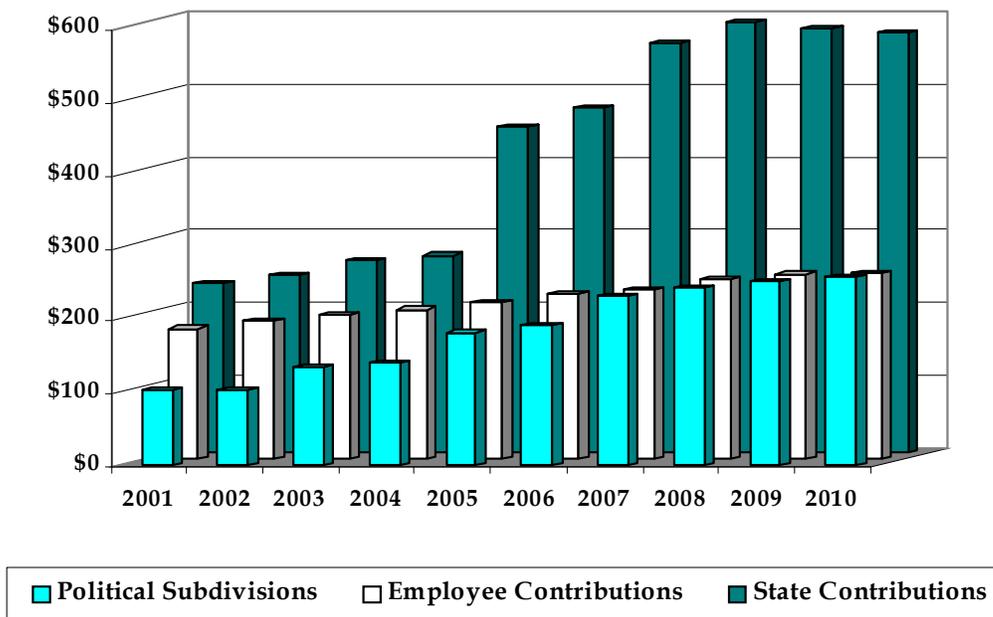
Year Ended June 30	State	Higher Education	
	Employees	Teachers	Employees
2001	6.19%	3.72	6.19%
2002	6.19	3.72	6.19
2003	7.30	3.40	7.30
2004 (1)	7.29	3.39	7.29
2005	10.54	5.50	10.54
2006 (2)	10.31	5.50	10.31
2007	13.62	6.13	13.62
2008	13.62	6.24	13.62
2009	13.02	6.42	13.02
2010	13.02	6.42	13.02

The employer contribution rates for political subdivisions are individually determined based on the biennial actuarial valuation of each political subdivision.

- (1) As part of a statewide request for budget reductions, TCRS reduced the administrative component of the employer contribution rate by 0.01 %.
- (2) A reduction in the contribution rate was made due to return to work reform.

RETIREMENT CONTRIBUTIONS

Fiscal Years 2001-2010



SCHEDULES OF PRINCIPAL PARTICIPATING EMPLOYERS

PRINCIPAL PARTICIPATING EMPLOYERS

Current Year and Nine Years Ago

SETHEPP

	2010			2001			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Participating Government				Participating Government			
Teachers	131,940	1	51.15%	Teachers	104,804	1	49.11%
State Employees	86,226	2	33.43%	State Employees	73,000	2	34.21%
Higher Ed. Employees	39,759	3	15.42%	Higher Ed. Employees	35,598	3	16.68%
Total	<u>257,925</u>		<u>100.00%</u>	Total	<u>213,402</u>		<u>100.00%</u>

PSP

	2010			2001			
	Covered Employees	Rank	% of Total System	Covered Employees	Rank	% of Total System	
Participating Government				Participating Government			
Memphis City Schools	8,098	1	5.81%	Memphis City Schools	6,473	1	6.08%
Hamilton County	5,401	2	3.87%	Hamilton County	5,284	2	4.96%
Shelby County Bd. of Ed.	3,406	3	2.44%	Shelby County	2,952	3	2.77%
Williamson County	3,305	4	2.37%	Montgomery County	2,331	4	2.19%
Rutherford County	3,251	5	2.33%	Rutherford County	2,280	5	2.14%
Montgomery County	3,076	6	2.21%	Sullivan County	2,152	6	2.02%
Sumner County	2,808	7	2.01%	Williamson County	2,144	7	2.01%
Sullivan County	2,147	8	1.54%	Sumner County	2,078	8	1.95%
Johnson City	1,828	9	1.31%	Johnson City	1,704	9	1.60%
Kingsport	1,805	10	1.30%	Kingsport	1,669	10	1.57%
Others	104,307		74.81%	Others	77,463		72.71%
Total	<u>139,432</u>		<u>100.00%</u>	Total	<u>106,530</u>		<u>100.00%</u>

INTRODUCTION TO POLITICAL SUBDIVISION PARTICIPATION

PARTICIPANTS

TCRS has established pension plans for four groups of public employees: state employees, higher education employees, teachers and the employees of governmental entities (political subdivisions). Employees of political subdivisions may participate in TCRS if the entity's governing body authorizes participation and accepts all liability associated with coverage for their employees.

Participation is subject to the approval of the Board of Trustees. At June 30, 2010, there were 486 political subdivisions participating in TCRS.

Participation as of June 30, 2010:

Cities	177
Counties	89
Utility Districts	67
Special School Districts	19
Joint Ventures	23
Housing Authorities	11
911 Emergency Communication Districts	43
Miscellaneous Authorities	<u>57</u>
Total	486

ADMINISTRATION

TCRS administers the pension plan for political subdivisions in accordance with state statute. Each employer is responsible for the pension cost for its employees. The cost is not shared with other political subdivisions nor with the state. A separate fund balance is maintained by the retirement system for each participating political subdivision and employer contribution rates are determined individually.

APPLICATION

To apply for TCRS participation, the chief governing body of the political subdivision must first pass a resolution authorizing an actuarial study to estimate the potential cost of participation. Once the governing body has had an opportunity to review the estimated pension cost and liability, a second resolution must then be passed in order to authorize TCRS participation. Political subdivisions electing TCRS coverage accept the liability for pension benefits to be accrued by their employees.

COVERAGE

A political subdivision is required to offer coverage under the same terms and conditions to all the employees of each of its departments and agencies.

Political subdivisions have the option of purchasing or allowing their employees to purchase retirement credit for service rendered prior to the employer's date of participation. The amount of prior service allowed may be limited.

Political subdivisions opting to join TCRS do so under the plan provisions that exist at the time of their participation. Subsequent legislative changes, however, are optional if they result in increased cost to the political subdivision. These optional improvements may be adopted by resolutions approved by the chief governing body.

**THE TCRS PROVIDES
THE ADMINISTRATION
OF A RETIREMENT
PROGRAM FOR 486
LOCAL GOVERNMENTS.**

OPTIONAL PROVISIONS FOR POLITICAL SUBDIVISIONS

<p>MEMBERSHIP</p> <ul style="list-style-type: none"> ❖ Optional membership for part-time employees ❖ Reduce vesting requirement to qualify for retirement benefits from 10 years to five years. <p>CONTRIBUTIONS</p> <ul style="list-style-type: none"> ❖ Employee contributions at a level five percent both below and above the Social Security wage base. ❖ Exclusion of employee contributions from taxable income under 414(h) provisions of the Internal Revenue Code. ❖ Noncontributory retirement plan ❖ Discontinue noncontributory retirement plan and implement contributory retirement plan for new employees ❖ Extension of 3.6 percent indexing feature for noncontributory members' salaries used in calculating the average final compensation <p>CREDITABLE SERVICE</p> <ul style="list-style-type: none"> ❖ Credit for service credit lost as a result of advanced age ❖ Service credit for unused sick leave ❖ Service credit for military service during periods of armed conflict at no cost to the employee ❖ Service credit for periods of temporary disability during which the employee was receiving workers' compensation payments based on covered employment ❖ Service credit purchase for peacetime military service between October 15, 1940 and May 7, 1975 ❖ Purchase of service credit for probation period 	<p>SURVIVOR BENEFITS</p> <ul style="list-style-type: none"> ❖ 100 percent joint and survivor spouse death benefit for members with 10 years of service ❖ Provide inactive members with certain death and disability benefits ❖ 50 percent of five year average salary benefits for surviving spouse for members killed in the line of duty <p>RETIREMENT BENEFITS</p> <ul style="list-style-type: none"> ❖ Provide current retirees and members a five percent increase in base retirement benefit ❖ The actuarial equivalent of an age 65 benefit for employees retiring after age 65 ❖ 25-year retirement with actuarially reduced benefits ❖ Minimum benefit level increase to \$8, \$14, \$20 per year of service ❖ Mandatory retirement with supplemental bridge benefit for public safety officers ❖ Service retirement at age 55 with 25 years of service for public safety officers <p>RETIRED MEMBERS</p> <ul style="list-style-type: none"> ❖ Exclusion of cost-of-living adjustments at the date of participation for all employees or at a later date for new employees ❖ Compounded cost-of-living adjustment (COLA) to current and future retirees
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POLITICAL SUBDIVISION PARTICIPANTS

<p>911 EMERGENCY COMMUNICATION DISTRICTS</p> <p>Campbell County Carroll County Carter County Cheatham County Claiborne County Cocke County DeKalb County Fayette County Fentress County Gibson County Grainger County Greene County Hamblen County Hamilton County Hardeman County Hardin County Hawkins County Humphreys County Jefferson County Johnston County Lauderdale County Lawrence County Madison County Maury County Monroe County McNairy County Montgomery County Overton County Roane County Robertson County Rutherford County Sequatchie County Sevier County Shelby County Sullivan County Tipton County Union County Van Buren County Warren County Washington County Weakley County White County Wilson County</p> <p>CITIES</p> <p>Adams Alamo Alcoa Ashland City Athens* Atoka Atwood Baileyton Baxter</p>	<p>Belle Meade Bells Benton Big Sandy Bluff City Bolivar Bradford Brentwood Brighton Bristol Brownsville Byrdstown Camden Carthage Caryville Centerville Charleston Charlotte Church Hill Clarksville Cleveland Clifton Clinton Collegedale Collinwood Cookeville Cornersville Cowan Crossville Cumberland Dandridge Dayton Decatur Decaturville Decherd Dickson Dover Ducktown Dunlap Dyer East Ridge Elizabethton Erin Erwin Estill Springs Etowah Fairview Fayetteville Forest Hills Friendship Friendsville Gainesboro Gatlinburg Gleason Goodlettsville Gordonsville Greenbrier</p>	<p>Greeneville Greenfield Harriman Hartsville Henderson Hendersonville Hohenwald Humboldt Huntland Jacksboro Jackson Jamestown Jefferson City Johnson City Jonesborough Kenton Kimball Kingsport Kingston Kingston Springs Lafayette Lafollette Lake City Lakeland Lakewood Lawrenceburg Lebanon Lenoir City* Linden Livingston Lobelville Lookout Mountain Loretto Loudon Luttrell Madisonville Manchester Martin Maryville Maury City Maynardville McEwen McKenzie McMinnville Medina Middleton Milan Millersville Millington Monterey Morrison Morristown Moscow Mosheim Mountain City Mt. Carmel Mt. Juliet</p>	<p>Munford Murfreesboro* New Johnsonville New Tazewell Newport Nolensville Norris Oak Ridge Oakland Obion Oliver Springs Paris Parsons Pegram Pikeville Pittman Center Pleasant View Portland Puryear Red Bank Ripley Rockwood Rogersville* Rutherford Rutledge Savannah Selmer Sevierville Signal Mountain Soddy Daisy Somerville South Carthage South Pittsburg Sparta Spencer Spring Hill Spring City Springfield Surgoinville Sweetwater Tazewell Tellico Plains Townsend Trenton Tusculum Unicoi Union City Vonore Waynesboro Waverly Westmoreland White House White Pine Whiteville Whitwell Woodbury</p>	<p>COUNTIES</p> <p>Anderson Bedford Benton Bledsoe Blount Bradley Campbell Cannon Carroll Carter Cheatham Chester Claiborne Clay Cocke Coffee Crockett Cumberland Decatur DeKalb Dickson Fayette Fentress Franklin Gibson Giles Grainger Greene Grundy Hamblen Hamilton Hardeman Hardin Hawkins Haywood Henderson Henry Hickman Humphreys Jackson Jefferson Johnson Lake Lauderdale Lawrence Lewis Lincoln Loudon Macon Madison Marion Marshall Maury McMinn McNairy Monroe</p>	<p>Montgomery Moore* Morgan Obion Overton Perry Pickett Polk Putnam Rhea Roane Robertson Rutherford Scott Sequatchie Sevier Shelby* Smith Stewart Sullivan Sumner Tipton Trousdale Unicoi Union Van Buren Warren Washington Wayne Weakley White Williamson Wilson</p> <p>HOUSING AUTHORITIES</p> <p>Bristol Clinton Cookeville Hartsville Hohenwald Lawrenceburg Maryville Memphis Morristown Rockwood Sweetwater</p> <p><i>*All departments not covered by TCRS.</i></p> <p style="text-align: right;"><i>(continued)</i></p>
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**POLITICAL SUBDIVISION PARTICIPANTS
(CONTINUED)**

JOINT VENTURES

Argie Cooper Public Library
 Bradley-Cleveland Civil Defense
 Bradley-Cleveland Comm. Svc. Agency
 Clarksville/Montgomery Co. Public Lib.
 Clarksville/Montgomery Co. Reg.
 Plan. Comm.
 Cleveland/Bradley Co. E-911
 Edward Gauche Fisher Public Library
 Fayetteville/Lincoln Co. Public Library
 Gorham/MacBane Public Library
 Jackson/Madison Co. Library
 Johnson City/Washington Co. EMS
 Kinser Park
 Lawrence Co. Library
 Linebaugh Public Library
 Morristown/Hamblen Co. Landfill
 Sevier Solid Waste
 Smyrna/Rutherford Co. Airport Auth.
 Tellico Area Svc. System
 Tri-City Airport Comm.
 Tri-County Vocational School
 W. G. Rhea Public Library
 Washington Co./Johnson City Animal
 Control Center
 Wilson Emergency Mgt. Agency

MISCELLANEOUS AGENCIES

Anderson Co. Water Authority
 Beech River Watershed
 Blount County Fire Protection Dist.
 Blount County Library
 Books from Birth
 Bristol/Kingsport/Sullivan Co.
 Industrial Commission Dist.
 Carter County Tomorrow
 County Officials Assoc. of Tenn.
 Delta Human Resource Agency
 Douglas Cherokee Economic Auth.
 East Tenn. Community Svc. Agency
 Fayetteville-Lincoln Co. Ind. Dev. Bd.
 First Tenn. Dev. District
 First Tenn. Human Resource Agency
 Four Lake Reg. Industrial Dev. Auth.
 Greater Nashville Regional Council
 Hamilton Co. Comm. Svc. Agency
 Knox Co. Community Services Agency
 Loudon Co. Economic Dev. Agency
 Mid-Cumberland Comm. Svc. Agency
 Melton Hill Regional Indust. Dev. Assoc.
 Newport/Locke Co. Economic Dev. Dist.
 Northeast Community Svc. Agency
 Northwest Tenn. Comm. Svc. Agency
 Sequatchie Valley Plan. & Dev. Dist.
 Shelby Co. Community Svc. Agency
 South Central Tenn. Comm. Serv. Ag.
 South Central Tenn. Dev. Dist.
 South Central Tenn. Workforce Board

Southeast Tenn. Comm. Svc. Agency
 Southeast Tenn. Dev. District
 Southeast Tenn. Human Res. Agency
 Southwest Tenn. Comm. Svc. Agency
 Southwest Tenn. Dev. District
 Southwest Tenn. Human Res. Agency
 Tenn. Assoc. of Assessing Officers
 Tenn. Assoc. of County Mayors
 Tenn. Athletic Coaches Assoc.
 Tenn. Co. Commissioners Assoc.
 Tenn. Co. Highway Officials Assoc.
 Tenn. County Services Assoc.
 Tenn. Duck River Dev. Agency
 Tenn. Education Assoc.
 Tenn. Historical Society
 Tenn. Municipal Bond Fund
 Tenn. Municipal League
 Tenn. Mun. League Risk Mgt. Pool
 Tenn. School Board Assoc.
 Tenn. Secondary Sch. Athletic Assoc.
 Tenn. Sheriffs Assoc.
 Tenn. State Employees Assoc.
 Tenn. Veterans Home Board
 Upper Cumberland Community
 Services Agency
 Upper Cumberland Human Res. Agency
 Upper East Tenn. Human Dev. Agency
 Workforce Solutions

SPECIAL SCHOOL DISTRICTS

Bradford
 Clinch Powell Education Coop.
 Elizabethton Board of Education
 Franklin
 Gibson County Schools District
 Hollow Rock-Bruceton
 Huntingdon
 Lebanon
 Little Tenn. Valley Education Coop.
 McKenzie
 Memphis
 Milan
 Oak Ridge Board of Education
 Oneida
 Paris
 South Carroll Special School District
 Trenton
 Union City Board of Education
 West Carroll County

UTILITY DISTRICTS

Alpha-Talbott
 Arthur Shawnee
 Big Creek
 Bloomingdale
 Bondecroft
 Bristol Electric System
 Cagle Fredonia Utility District
 Castalian Springs/Bethpage

Chuckey Utility District
 Citizen's Gas
 Consolidated Utility District of
 Rutherford County
 County Wide
 Crab Orchard
 Cross Anchor Utility District
 Cumberland Utility District of Roane
 and Morgan Counties
 DeWhite
 Double Springs
 Dyersburg Suburban
 East Fork
 East Montgomery
 East Side
 Fall Creek Falls
 First Carter County
 First Tipton County
 First Hawkins County
 Gladeville
 Glen Hills
 Greater Dickson Gas Authority
 Greeneville Light & Power
 Hampton
 Hardeman-Fayette County
 Hendersonville
 Hixson
 Jackson County
 Johnson City Power Bd.
 Lake County
 Lakeview
 Lincoln County Board of Public Utilities
 Loudon
 Middle Tennessee
 New Market
 North Utility District of Decatur and
 Benton Counties
 Northeast Henry County
 Oak Ridge
 Old Gainesboro Road
 Old Hickory
 Paris-Henry Utility District
 Persia
 Plateau
 Poplar Grove
 Quebec-Walling
 Reelfoot Lake Regional
 Riceville
 River Road
 Savannah Valley
 Sevier County
 Siam
 Sylvia-Tennessee City Pond Water
 Sneedville
 Soddy Daisy-Falling Water
 Smith
 South Elizabethton
 Weakley County Municipal Electric
 Webb Creek
 West Overton